

Making Access Possible



Zimbabwe

Financial Inclusion
Country Report

2016



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PARTNERING FOR A COMMON PURPOSE

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level. The MAP methodology and process has been developed jointly by United Nations Capital Development Fund (UNCDF), FinMark Trust (FMT) and the Centre for Financial Regulation and Inclusion (Cenfri) to foster inclusive financial sector growth.

At country level, the core MAP partners, collaborate with Government, other key stakeholders and donors to ensure an inclusive, holistic process. MAP Zimbabwe was funded by FinMark Trust and produced by Cenfri.

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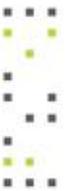
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List of Abbreviations and Acronyms

A2A	Account-To-Account
ADLA	Authorised Dealer With Limited Authority
AfDB	African Development Bank
AFI	Alliance For Financial Inclusion
Afreximbank	African Export Import Bank
AFTRADES	Afreximbank Trade Debt-Backed Securities
AFI	Alliance For Financial Inclusion
BAZ	Bankers Association Of Zimbabwe
BFA	Bankable Frontiers Associates
CAR	Capital Adequacy Ratio
CBZ	Commercial Bank Of Zimbabwe
CENFRI	Centre For Financial Regulation And Inclusion
CSD	Central Securities Depository
CTC	Competition And Tariff Commission
CZI	Confederation Of Zimbabwe Industries
DANIDA	Royal Danish Ministry Of Foreign Affairs
DFID	Department For International Development (UK)
DPC	Deposit Protection Corporation
ECH	Electronic Clearing House
EDF	European Development Fund
EFT	Electronic Funds Transfer
ESAP	Economic Structural Adjustment Programme
EU	European Union
EWG	Econet Wireless Group
FDI	Foreign Direct Investment
FMT	FinMark Trust
FSP	Financial Services Provider
FTLRP	Fast Track Land-Reform Programme
GDP	Gross Domestic Product
GNI	Gross National Income
GWP	Gross Written Premium
HDI	Human Development Index
IBAHRI	International Bar Association's Human Rights Institute
IDBZ	Infrastructure Development Bank Of Zimbabwe
IEE	Indigenisation And Economic Empowerment (Act)
ILO	International Labour Organisation
IMF	International Monetary Fund
IPEC	Insurance And Pensions Commission
ISALS	Internal Savings And Lending Scheme
KYC	Know Your Customer
MAP	Making Access To Financial Services Possible
MAS	Medical Aid Scheme
MFI	Microfinance Institution
MMO	Mobile Money Operator



MNO	Mobile Network Operator
MOFED	Ministry Of Finance And Economic Development
MOU	Memorandum Of Understanding
MRIA	Money-Lending And Rates Of Interest Act
MSME	Micro, Small And Medium Enterprise
MTO	Money Transfer Operator
NBFI	Non-Bank Financial Institution
NFIS	National Financial Inclusion Strategy
NGO	Non-Governmental Organisation
NIP	National Indicative Programme
NPL	Non-Performing Loan
NPW	Net Premium Written
NPS	National Payments System
NSSA	National Social Security Authority
OTC	Over-The-Counter
P2P	Person To Person
PAR	Portfolio-At-Risk
POS	Point Of Sale
POTRAZ	Postal & Telecommunications Regulatory Authority Of Zimbabwe
PPP	Purchasing Power Parity
PSP	Payment Service Provider
RBZ	Reserve Bank Of Zimbabwe
RCTV	Remote Cross-Border Transfer Of Value
RDTV	Remote Domestic Transfer Of Value
RICA	Regulation Of Interception Of Communications And Provision Of Communication-Related Information Act
ROA	Return On Investment
ROE	Return On Equity
RTGS	Real-Time Gross Settlement System
SACCO	Savings And Credit Co-Operative
SADC	Southern African Development Community
SARB	South African Reserve Bank
SECZ	Securities Exchange Control Of Zimbabwe
SIRESS	SADC Integrated Regional Settlement System
SME	Small & Medium Enterprises
SMEDCO	Small & Medium Enterprises Development Corporation
SMP	Staff Monitoring Programme (Of The IMF)
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
US	United States (Of America)
USD	United States Dollar
USSD	Unstructured Supplementary Service Data
ZADT	Zimbabwe Agricultural Development Trust
ZAMFI	Zimbabwe Association Of Microfinance Institutions
ZAMCO	Zimbabwe Asset Management Corporation
ZETSS	Zimbabwe Electronic Transfer And Settlement System



ZIMASSET	Zimbabwe Agenda For Sustainable Socio-Economic Transformation
ZIMPREST	Zimbabwe Programme For Economic And Social Transformation
ZIMSTAT	Zimbabwe National Statistic Agency
ZIPIT	ZimSwitch Instant Payment Interchange Technology

Zimbabwean Currency

Zimbabwe phased out the use of the Zimbabwe Dollar and introduced a multi-currency regime in 2009 to stem hyperinflation. Included in the currency basket are the following currencies: the United States Dollar, the British Pound, the Euro, the Australian Dollar, the Chinese Yuan, the South African Rand, and the Botswana Pula.



Key facts

Zimbabwe has a GDP of USD 14.2 billion¹.

Total of 7 million adults, constituting 50% of the total population.

GNI USD 840 Per Capita (USD 2.3 a day)

51% of adults earn at least a portion of their income from farming.

52% of all adults are reliant on more than one source of income.

8% of adults have tertiary education.

46% of adults are registered mobile money account users.

49% of adults rely on remittances.

Financial Inclusion Priorities

Priority Area 1: INCREASE THE AVAILABILITY OF CASH

94% of adults indicated that cash is their preferred medium of payment as well as preferred medium of savings.

Priority Area 2: UTILISING AND EXPANDING BANKING INFRASTRUCTURE

Payments are the most important financial services need in Zimbabwe. In order for banks to compete with non-bank FSPs, transitioning to shared infrastructure and interoperability is a key survival strategy.

Priority Area 3: PAYMENTS AND SAVINGS-BASED CREDIT

The traditional collateral-based credit models act to exclude consumers. Savings and transactional behaviour can serve as alternatives for traditional collateral.

Priority Area 4: SERVICES FOR THE DIASPORA MARKET

¹ <http://data.worldbank.org/country/zimbabwe>



Over 3 million adults, 34% of the adult population, reside outside Zimbabwe and are active remittance senders. They can be a direct target market for financial service providers.

Priority Area 5: **NICHE PRODUCTS**

Key financial services need cases such as education, asset accumulation, agricultural inputs and cross-border payments present opportunities for innovative niche products to meet consumer needs.

Overview of Financial Access in Zimbabwe

69% of adults reported using at least one financial service from a formal financial service provider.

Of these, **65%** reported having a mobile money account, **44%** have a bank account.

15%² of adults use more than two formal financial services

23% of adults only make use of informal services or those provided by their communities

8% of adults report using no financial services

² Defined as persons that have access to two different types of product of either, payments, credit, insurance and/or savings.



Breakdown of Financial Access in Zimbabwe by Product Market

66% of adults utilise formal payments to meet their needs

31% of adults send domestic remittances and

1% send international remittances

44% of adults receive domestic remittances and

13% receive international remittances

12% of adults borrow from a formal institution

18% of adults save with a formal financial service provider

16% of adults save in informal savings groups

21% of adults save in cash at home

4% of adults have formal insurance

Executive summary

This report captures the findings of the Making Access Possible or MAP diagnostic study of financial inclusion in Zimbabwe undertaken during 2014-15. MAP is a multi-country initiative to support financial inclusion through a process of evidence-based country analysis. It is a partnership between the United Nations Capital Development Fund (UNCDF), FinMark Trust and the Centre for Financial Regulation and Inclusion (Cenfri). The MAP Zimbabwe diagnostic was overseen by a steering committee consisting of representatives from the Ministry of Finance, who chaired the committee, other relevant ministries, financial sector regulators, private industry associations and the sponsoring funders.

Methodology. The demand-side data in this MAP diagnostic is based on FinScope 2014, with comparisons to FinScope 2011. FinScope is a nationally representative consumer survey undertaken to gauge consumer realities, perceptions, needs and current usage of formal and informal financial services. To gain a deeper understanding of consumer behaviour, a range of in-depth individual interviews with different types of consumers were conducted in June 2015. Supply-side data came from financial regulators, financial institutions, a market scan of entry-level financial products and in-country consultations undertaken in June 2015.

Formal access increased dramatically. Figure 14 below indicates a dramatic increase in the percentage of adults in Zimbabwe served by formal financial services – from 38% in 2011 to 70% in 2014. The bulk of these newly served customers can be attributed to mobile money platforms, notably EcoCash, that were launched beginning in 2011. These are included under the category “formal” together with insurers and MFIs. Whereas 25% of adults currently use some form of formal insurance or pension, FinScope reported less than 50 000 adults using credit from MFIs. When the overlap between the different provider categories in the access strand is removed to show total usage of each category, the extent to which the financial services needs of Zimbabweans are met by family and friends (73% of total adults) and informal groups and moneylenders (25%) becomes more apparent.

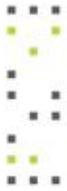
Bank usage has declined. Despite the access strand showing that ownership of bank accounts increased from 24% to 30% between 2011 and 2014, actual bank account usage³ in fact declined. The Global Findex Survey showed that the number of dormant bank accounts in Zimbabwe increased from about 4% in 2011 to 25% in 2014.

At an individual product market level FinScope revealed equally interesting results.

Most credit informal. Most Zimbabweans are able to access credit only from family and friends, informal moneylenders, or community groups. The largest formal provider of credit in Zimbabwe, at about 8% of adults, is now EcoCash through their loan product, provided by a bank owned by the same group. The provision of this mobile money credit is based on minimum savings in an EcoCash Save account and credit scoring based on transaction flows through the customer’s EcoCash account. Banks provide no more than 4% of adults with credit, the bulk of that through payroll lending.

Fewer people save. Whereas almost two out of three Zimbabwean adults were able to save in 2011, this had dropped to less than one in two by 2014. Of those that save, the majority save in cash at home. Informal savings groups, with the discipline of regular contributions and the promise of credit when needed, are where the second largest group of Zimbabwean adults save. The number of adults

³ While bank account access may denote ownership, this does not always translate to optimal usage the account and its full functionality.



that save in banks have declined from 17% to 10% whereas those who save in the mobile money channel continue to increase towards the bank market share.

Funeral insurance dominates. A quarter of adults now have formal insurance, showing some growth from 2011. The bulk of this and the most important area of growth for the formal market, is funeral insurance, with medical aid (25% of all those who have insurance) being the second largest product used. Informal risk mitigation continues to play an important role, especially through churches and other community groups.

Payments dominate. The financial services used and needed most by adults are payment services. Almost 100% of adults make local payments, mostly in cash. More than 80% of adults make bill payments and almost half receive some form of electronic value that they wish to convert into cash. Of those Zimbabwean adults that make domestic transfers of value, more than 80% use mobile money platforms rather than banks. MTOs and banks play a larger role in cross-border remittances, although mobile money also plays an increasingly more important role here. By 2014, the number of adults that use mobile money for their transactional needs (31%) had exceeded those that use banks for their transactional needs (24%).

Managing uncertainty drives needs. In addition to payments services being the predominant financial services need, Zimbabwean adults exhibit a strong desire for financial services to provide for uncertain events in their lives, as well as consumption smoothing. In the highly constrained and uncertain environment, liquidity management plays an important role in Zimbabwean adults' day to day lives. Asset accumulation and services to provide for education emerged as another critical need for adults who place a high priority on educational attainment and whose preference in a post-hyperinflation era is for savings in real assets.

So how and why did this seismic shift in financial inclusion and usage in Zimbabwe occur? A number of forces influenced and continue to drive the direction of usage of financial services:

Declining incomes and formal employment. Salaried employment is a primary driver of the usage of formal financial services. The formally employed declined from 1.2 million in 1998 to just more than 700 000 in 2014 and the decline continues. At the same time FinScope revealed a reduction in the average monthly income of adults from USD143 in 2011 to USD134 in 2014 leaving less money to save and making credit less affordable.

Restrictive macroeconomic conditions. Following the adoption of the US dollar as the currency of choice for government and commerce in Zimbabwe in 2009, there was an initial economic recovery that restored positive economic growth. Bank deposits and credit extension started to recover. However, by 2011 the US dollar started to appreciate dramatically against the currencies of Zimbabwe's main trading partners, leading to overvalued exports. The result has been a strong downturn in manufacturing and a troubled corporate sector. This has contributed to a non-performing loan ratio that reached 16% at the end of 2014, causing the government to create an entity to purchase toxic assets. The overvalued exchange rate undermines the extension of all categories of productive credit, including credit to agriculture. On the other hand, it has created opportunities for cross-border traders to purchase goods with hard currency from across the border and sell locally.

High migration. Almost a third of adult Zimbabweans –estimated at 3.3 million - now live outside the country. The remittances that they send home to family and friends, at 13% of GDP, are now a significant source of foreign funding flowing into the country. It has spawned a healthy and



competitive market in remittance services, assisted by regulatory reform. Whereas the majority of cross-border remittances into Zimbabwe used informal channels just 5 years ago, an increasing proportion now flow through formal channels as more affordable and accessible formal money transfer alternatives emerge.

The growing informal economy. The prolonged economic crisis has driven more than 90% of the working population to make a living outside the formal sector. Most of them can access neither formal credit nor savings, but they still have a strong need for payment services. As individuals they can comply with KYC requirements and access formal payment services. Mobile money platforms, with an agent network that reached 27 000 by June 2015, can serve Zimbabwean adults participating in the informal sector conveniently and at low cost. Traditional collateral-based credit models do not work for the informal sector, which is why group lending, savings-based credit and credit provided on the basis of credit scoring using alternative data such as transaction flows are replacing the traditional credit model.

The experience of hyperinflation and dollarisation. Virtually all Zimbabwean adults either lost savings or insurance benefits or pensions during the hyperinflation period and its aftermath, or know of someone who did. The prolonged life of troubled banks following the introduction of the multi-currency regime has reinforced the resultant general distrust in banks and insurers, causing adults to save in hard currency cash at home or in informal groups. Mobile money operators, trading off the brand value of their mobile network operators, do not share this history, and are therefore the most trusted financial institutions in Zimbabwe at the moment. Funeral insurers also have a positive reputation, since they continued to deliver benefits in kind throughout the hyperinflationary period. Which explains funeral insurance currently being the most significant growth market in insurance.

Banks struggle to adjust. Banks have been impacted severely by the economic crisis, the struggling corporate sector and the inability of the RBZ to play their role as lender of last resort. This has forced them to concentrate more on their personal business and to go down-market. However, they are hamstrung by a distribution network that is fragmented and have not kept up with the burgeoning mobile agent network. The ATM footprint barely grew over the past few years and numbered little more than 500 by 2015. Whereas the POS network grew a lot faster, bank infrastructure remains proprietary. Banks are therefore not well placed to compete in the retail payments market which has become the gateway to financial services for a commercially informal population. MAP also revealed that low income Zimbabwean adults prefer a transaction-based pricing model for payments and savings services, rather than the traditional retainer fee model used by banks. This has contributed to the fast adoption of mobile money platforms.

Shortage of cash. In a dollarised financial sector, the RBZ is no longer the supplier of physical currency for the economy. This role is played by a few commercial banks that import US dollars from their correspondent banks. The cost of importing cash is high at about 3% of face value. Since the importing banks have not been able to adequately price for cash reticulation until recently, Zimbabwe experienced a cash shortage which depressed retail financial flows.

Rapid adoption of mobile money. Mobile money has been the game changer for financial inclusion in Zimbabwe. The number of registered mobile money subscribers grew from zero in 2011 to 3.3 million or almost 45% of the adult population by June 2015. The rapid adoption is facilitated by the dominant position amongst mobile network operators of Econet. EcoCash is also building a convergence model around its mobile platform which now enables it to deliver prudentially supervised savings, credit and insurance.



Given the current state of financial inclusion and the strong underlying drivers, MAP identified the following opportunities for extending and safeguarding financial inclusion in Zimbabwe. These opportunities take the current macroeconomic conditions and political economy as a given, recognising that changes in these underlying conditions will open up many more opportunities:

Increase the supply of cash which is the oxygen of financial inclusion, including of digital financial inclusion. Those banks that import cash must be allowed to price for its reticulation.

Expand and optimise the use of banking infrastructure. Banks, with their huge skills base and infrastructure, must be enabled to regain a strong role in financial inclusion. As a first step they should share their infrastructure, competing on service rather infrastructure. They should also aggressively expand the growing banking agent network, and further develop the underlying payments infrastructure. Lastly, missing national payment system components, such as electronic clearing house and EFT functionality, along with achieving effective interoperability will support this growth. The regulatory authorities should play a strong role to assist the banking sector to reposition. If the banks do not move to facilitate interoperability between their systems, the RBZ can mandate it. The RBZ, POTRAZ and the Competition and Tariff Commission should also cooperate to ensure a level playing field between the banking sector and mobile money platforms.

Evolve the payments and savings-based personal credit model. Traditional collateral-based credit is difficult to pursue under current market conditions. Markets for collateral are shallow and creditors struggle to recover their security. Most of the new formal sector credit in the market which is not payroll credit is therefore based on creating alternative collateral in the form of minimum savings, or using alternative data to measure the creditworthiness of customers. Whilst formal employment continues to decline and the corporate sector struggles, most of the opportunity for credit will lie in this space. Banks should continue to innovate in this space.

Services for the diaspora market. Providing cross-border remittances into Zimbabwe will remain a growth market for years to come. Increasing the efficiency and lowering the cost of these services must therefore be a priority. However, the opportunity is bigger and Zimbabwean financial institutions are starting to market other services, such as investment and insurance, to remittance senders and receivers alike. The state has a particularly important role to play. Here the opportunity is to regularise the residence of Zimbabweans currently residing without work permits or travel documents in host countries. Once they can legally make use of financial services in their host country, many new opportunities open up. The government should pay particular attention to their citizens abroad in ways that encourage capital flows from the diaspora into the country.

Develop niche products. MAP revealed a strong opportunity for certain niche products. These include credit for incremental housing, cashless payment services for cross-border traders and value chain credit for smallholder farmers.

Ensure proportionate regulation and supervision of the evolving mobile money market. Mobile money has grown rapidly and is in Zimbabwe to stay. An important contributing factor has been the regulatory approach of the RBZ - using a type of contractual supervision before passing any permanent regulatory framework. However, the industry is now so big and important that its sheer size raises consumer protection concerns. It is therefore timely to pass a regulatory framework for mobile money payments, with a strong emphasis on consumer protection. It will be difficult to introduce and enforce such a framework without the coordinated effort of all the regulators involved - RBZ, POTRAZ, the Tariff and Competition Commission and IPEC.



1. Introduction

Ashton is a 29 year old cleaner from Chitungwiza. He states that his family has a strong bond and he shares a house with his parents, sister, nephews and nieces. Apart from his job, Ashton and his family rear and sell chickens as a means of earning more income. He also receives remittances from his siblings who reside in South Africa; these are largely used for the upkeep of his nieces and nephews. In addition to the chicken business, he leases out part of the family house to tenants. Finally, his father also receives a monthly pension. All of these various streams of income combine to make their livelihood. He also manages to keep some money aside for saving: some in the bank and some in a safe at home. Ashton wishes to start up a transport business, however, the bank denied him a loan when he tried applying for one. (Qualitative study, 2015)

What can MAP tell us about the prospects for the financial sector to serve people like Ashton?

1.1. What is MAP?

Making Access to Financial Services Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country analysis. It is a partnership between the United Nations Capital Development Fund⁴ (UNCDF), FinMark Trust⁵ and the Centre for Financial Regulation and Inclusion⁶ (Cenfri). In each country, it aligns stakeholders from within government, private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country⁷.

Comprehensive scope. MAP compiles a comprehensive picture of financial inclusion drivers, barriers and opportunities across the **country context**, the **demand** for and **supply** of financial services, and the **regulatory environment** in four core product markets: **savings, credit, payments** and **insurance**.

Customer needs at the core. What sets MAP apart from other scoping exercises is that the demand-side perspective is the point of departure. The rest of the analysis then evaluates the supply of financial services Zimbabwe against the core customer needs identified.

1.2. Background

Strong public commitment to financial inclusion. The government of Zimbabwe has a longstanding commitment to greater financial inclusion and has been a member of the global Alliance for Financial Inclusion (AFI) since 2010. As culmination of the various financial inclusion efforts over the years, the

⁴ **UNCDF** (www.uncdf.org) is the UN's capital investment agency for the world's least-developed countries. It creates new opportunities for poor people and their communities by increasing access to microfinance and investment capital. UNCDF focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict or crisis. It provides seed capital – grants and loans – and technical support to help microfinance institutions reach more poor households and small businesses, and local governments finance the capital investments – water systems, feeder roads, schools, irrigation schemes – that will improve poor peoples' lives.

⁵ **FinMark Trust** (www.finmark.org.za) was established in March 2002 with funding from the UK's Department for International Development (DFID). FinMark Trust is an independent non-profit trust whose purpose is 'Making financial markets work for the poor by promoting financial inclusion and regional financial integration'. FinMark Trust has been engaging with the government of Zimbabwe on financial inclusion for a number of years, including the roll out of the FinScope Consumer Survey in 2011 and 2014, as well as the FinScope MSME Survey in 2012.

⁶ **Cenfri** (www.cenfri.org) is a non-profit think-tank based in Cape Town, South Africa. Cenfri's mission is to support financial sector development and financial inclusion through facilitating better regulation and market provision of financial services. They do this by conducting research, providing advice and developing capacity building programmes for regulators, market players and other parties operating in the low-income market.

⁷ For more information on MAP visit any of the partner websites.



Reserve Bank of Zimbabwe is coordinating the development of a National Financial Inclusion Strategy (NFIS). At the end of 2015, a draft NFIS 2016-2020 was published for comment and inputs.

Financial inclusion to serve a bigger goal. The draft NFIS (2015) defines financial inclusion as: “The effective use of a wide range of quality, affordable and accessible financial services, provided in a fair and transparent manner through formal/regulated entities, by all Zimbabweans.” It recognises the role of financial inclusion in socioeconomic development. As such, it supports the broader national development objectives under the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIMASSET). The draft NFIS states that, while strides have been made through various previous interventions to promote financial inclusion, gaps persist. Particular needs identified include micro, small and medium enterprise (MSME) finance, as well as women, youth, rural areas and the small scale agricultural sector. The draft NFIS defines four pillars, namely financial innovation, financial capability, consumer protection and microfinance.

1.3. Rationale for MAP in Zimbabwe

The draft NFIS (2015) expresses the need for a strategic framework to anchor a clear national vision for financial inclusion, as well as a coordinated approach. It emphasises the need for “an evidence based, prioritised, better resourced, and more comprehensive approach to expanding access and usage of financial services.”

Evidence to inform strategic priorities. As comprehensive analysis of context, demand, supply and regulation factors across product markets, MAP Zimbabwe provides an evidence base to help inform the finalisation and implementation of the NFIS. The government of Zimbabwe is a formal stakeholder in the MAP programme and has participated in the steering committee for the study. More broadly, MAP also provides market intelligence for providers seeking to better understand customer needs and market gaps and opportunities.

Findings shared in stakeholder workshop. The MAP findings for Zimbabwe were presented at a national stakeholder workshop convened by the Ministry of Finance and Economic Development in Harare on 14 December 2015. The workshop was opened and attended by the Minister of Finance and Economic Development, the Hon. Mr. P. A. Chinamasa. This report provides the evidence base underlying the key findings and recommendations presented at the workshop.

1.4. Methodology

The analysis draws on five primary sources⁸:

- **Quantitative demand-side analysis** of the FinScope (2014) and FinScope (2011) surveys, as well as the FinScope MSME Survey of 2012. FinScope is a comprehensive, nationally representative consumer survey implemented by FinMark Trust in partnership with local governments and stakeholders to gauge consumer realities, perceptions, needs and current usage of various types of formal and informal financial services⁹. To date, FinScope has been rolled out in close to 20 countries in Africa and Asia. These surveys were also used by the drafters of the NFIS.

⁸ Information and data reflect that which was available at the time of research, which primarily took place up to June 2015. The report aims to be current as of June 2015.

⁹ For more information, see www.finscope.co.za



- **Qualitative demand-side research** in the form of a range of individual interviews conducted in June 2015. The qualitative research seeks to gain deeper, descriptive insights into the way that society functions financially, as well as people’s household livelihood and budget realities, needs, perceptions and engagement with financial services.
- **In-country consultations**, including stakeholder interviews with a range of financial service providers, public and NGO stakeholders in June 2015.
- **An analysis of financial sector data** obtained from the Reserve Bank of Zimbabwe (RBZ) and various financial institutions, as well as a **scan of entry-level products** in the market based on information compiled in 2015.
- Extensive **desktop research**, including of various relevant regulatory instruments and secondary reports across the various areas of analysis.

1.5. Structure

In order to impact on socio-economic outcomes, a suite of appropriate financial services are needed that are accessible and provide value to clients. To evaluate the current supply offering and derive key findings and recommendations on the priorities for financial inclusion requires an understanding of the core customer needs that shape demand. Furthermore, the scope for financial inclusion is conditioned by the country context and the regulatory environment within which the financial sector operates. Accordingly, the document is structured in four parts:

- **Part A: Setting the scene.** Part A provides an overview of the key context drivers shaping market development, considering the macroeconomic circumstances, the socio-economic context for the target market, and the key tenets of the policy and regulatory framework as backdrop.
- **Part B: Understanding customer needs.** Unpacking the demand for financial services is at the heart of the MAP analysis. This part starts off by segmenting the Zimbabwean adult population into discrete target market groups to better understand their profiles. It then considers current uptake of financial services at overall level, as well as by target market segment. Lastly it asks the critical question of whether current usage is meeting underlying consumer needs. This it does by outlining a set of core “need cases”, which are defined as discrete needs for financial services – for example the need to transact, to manage risk or to smooth transactions – and then assessing how such needs are currently served by different financial services. This forms the bridge into the supply-side analysis to follow in Part C.
- **Part C: The market response.** Part C provides an overview of the current supply of financial services in Zimbabwe. It starts off by sketching the overall range and nature of providers in the market, before delving deeper into the providers, products, regulatory issues and barriers in each of the four product markets of payments, savings, credit and insurance.
- **Part D: Findings and recommendations.** Finally, Part D synthesises the analysis into seven key findings regarding the nature and scope for financial services in Zimbabwe and recommends seven priority options for a roadmap to extend financial inclusion.

To facilitate ease of reading, each section starts off with a summary box highlighting the key findings or insights from the particular section.



Part A. Setting the scene

The economic context and policy and regulatory framework are key determinants of the way that financial inclusion unfolds in Zimbabwe. This part starts off by outlining the context drivers for market development, before considering the parameters for the development of the financial sector as set in the policy and regulatory framework.

2. Context drivers for market development

In Zimbabwe, arguably more so than any other MAP study to-date, understanding the bigger picture and the way that it has unfolded in recent decades is a prerequisite to any conclusion on the role of and scope for financial inclusion. The reason being that the unique country context is a core driver of the current state and development potential of the financial sector. This section is structured along two lines: (i) it starts off with an overview of the current state of affairs and (ii) then asks how things came to be the way that they are by outlining the historical narrative since independence in terms of macroeconomics and socio-economic conditions. This historical understanding is key to understanding the driving forces that shape the current economic and social landscape and will continue to determine the course of events within which the financial inclusion roadmap needs to be positioned.

Key findings: context drivers for market development

- Zimbabwe has a turbulent recent economic history. Notably, the hyperinflation period still reverberates through the economy and continues to drive consumer behaviour and attitudes towards financial services.
- The economic situation is still fragile. Macroeconomic conditions are restrictive, with limited growth. The adoption of a multi-currency regime brought stability, but also eroded Zimbabwe's competitiveness in the region and undermined the industrial base.
- The macroeconomic situation has strong socioeconomic implications, with declining incomes and shrinking formal employment. This is driving an informalisation of the economy, with implications for financial inclusion.
- The economic situation has also created a large Zimbabwean diaspora abroad, notably in South Africa, who support relatives at home.

2.1. Snapshot: An economy in crisis – and people rising to the task

The 15-odd million people in Zimbabwe have lived through economic times that most people worldwide can only imagine with dread. They coped with hyperinflation by being resourceful and supporting each other. And though hyperinflation has ended, they still face dire circumstances, with rising poverty and poor economic prospects. They are continuing to show their resilience by coping in a dollarized set-up where small change until recently did not exist, where currency in circulation is limited and where they are seeing their livelihoods eroded through the effects of a strong US dollar.

There are a number of interrelated elements to the current country context:



A dollarized economy: saving grace as well as culprit

The single biggest economic factor in Zimbabwe's recent history is the crippling period of hyperinflation experienced in the 2000s. The country emerged out of hyperinflation by adopting a multi-currency system (unofficially termed "dollarization"). Section 2.2 sets out the historical narrative of hyperinflation and dollarization. Dollarization initially brought stability and growth. However, it has also come at a cost.

- *Stable but struggling economy.* With the appreciation of the dollar, export competitiveness has been undermined. Thus, as will be discussed in section 2.2, the strengthening US dollar has caused the country to suffer from Dutch Disease.
- *Small formal economic base.* Dutch Disease has implied real economy losses. Real GDP growth for 2014 was initially projected to improve marginally to just above 4.0%, but averaged at 3.1% and has been revised down by the World Bank to 1.5% (World Bank, 2015). The main reason for the downward projections is the poor performance of the mining and manufacturing sectors. GDP, at constant 2005 prices, has shrunk to USD6.7 billion in 2013 from USD8.7 billion in 1999. The country is thus experiencing declining productivity in agriculture and manufacturing and a concurrent reduction in formal employment. Currently, more than 99% of all farmers are smallholder farmers, manufacturing contributes only 13% of GDP (down from 18% at the turn of the century and there are fewer than 750 000 salaried workers (AEO, 2013; World Bank, 2013; FinScope, 2014).

"Economic externalisation"

Adopting a foreign currency has meant that the government has relinquished control over the money supply, cannot exercise monetary policy, and faces fiscal constraints (see Box 6 for further detail). Remittances stemming from large-scale economic migration (discussed below) have become an important capital inflow, even more so in the face of reduced export revenue generation. Export revenue declined from USD6 billion in 2006 to USD1.68 billion at its lowest in 2008, before recovering marginally to USD3 billion in 2014. In 2014, Zimbabwean adults in the diaspora remitted USD837 million through formal channels, exceeding foreign aid flows by USD102 million in the same year (RBZ, 2014). There is also a vibrant cross-border trade sector, with traders capitalising on the strong US dollar to buy goods cross-border for resale in Zimbabwe (stakeholder interviews, 2015). 57% of Zimbabwean MSMEs, or 483 000 adults, are cross-border traders (FinScope, 2014).

A crumbling backbone

While Zimbabwe's infrastructure endowment is extensive, it is deteriorating due to underinvestment. This holds true for electricity, roads and water and sanitation infrastructure (AfDB, 2011).¹⁰ On the upside, mobile network operators (MNOs) have continued to plough in resources to expand their network reach. Active mobile penetration rates in 2014 were 90% and online penetration rates were 45% (POTRAZ, 2015). Yet downtime experienced by MNOs and financial service providers has increased progressively, undermining service provision.

¹⁰ For instance: power infrastructure is in need of rehabilitation and power outages are increasingly common. Of the 2 000 MW generation capacity, only 1 000 MW is available. Where roads are concerned, only 60% of the total road network of 90 000 km was in fair to good condition in 2011, a decline from 73% in 1998. The water and sewer systems are similarly under strain. The nation has an annual infrastructure funding gap of USD0.6 billion which it cannot currently meet due to the constrained state revenue generation.



Increasing informality

Fewer formal sector jobs mean that more and more Zimbabwean adults are participating in informal economic activity to make ends meet. The change in the economic landscape has necessitated a nation of entrepreneurs. As will be discussed in section 4, as many as 3 million adults are engaged in MSME activity, largely in the informal sector (FinScope, 2012).

This macroeconomic picture has very real implications at household level:

Less bread on the table:

- *Diminishing incomes.* In the aftermath of hyperinflation, the majority of adults have experienced and continue to experience a decline in incomes. Figure 1 below shows that average income has decreased from USD143 in 2011 to USD133 in 2014. While the position of the more affluent has remained fairly constant, the number of adults living below the average income has increased from 50% in 2011 to 63% in 2014. To put it in context, this amounts to less than 10% of the global GDP per capita average, adjusted for purchasing power parity (PPP) (World Bank, 2015). Citizens are experiencing increasing poverty: whereas a quarter of Zimbabwean adults were considered to be poor in 1990, in 2014 63% of adults were below the poverty line (World Bank, 1995; ZIMSTATS, 2012; World Bank, 2015).

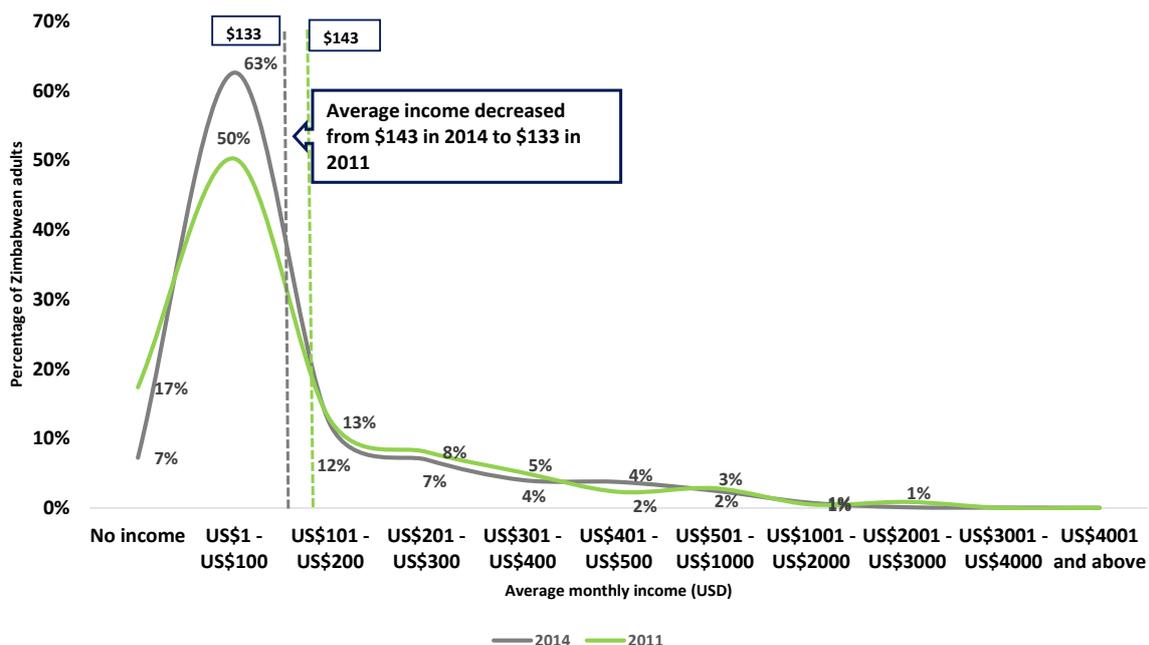


Figure 1: Shift in income distribution from 2011 to 2014

Source: FinScope, 2014

- *Drastic coping strategies.* The result is that households use their limited income for consumption smoothing and have less income to direct to other expenditures: 62% of adults in the FinScope survey reported that they did not have extra money because their income goes into household expenses and a full 72% reported that they had to rely on family and friends when they had to skip a meal (FinScope, 2014). To overcome the severe budget constraints faced, many households rely on multiple sources of income to sustain their standard of living. In total, just over half of adults reported having more than one income source.



Seeking opportunities elsewhere

In addition to engaging in the informal economy, many households have sent a family member abroad to cope with the implications of the economic situation. The current Zimbabwean diaspora is conservatively estimated at 3.3 million adults.¹¹ Due to the strong ties of the diaspora to Zimbabwe, capital inflows from outside the country have emerged as a strong livelihoods strategy for those in Zimbabwe. To illustrate, FinScope (2014) reports that 13% of adults received international remittances in 2014 (931 000 adults). Moreover, of the total adult population, 575 000 adults (8%) rely on remittances as their primary source of income.

Resilient, adaptive society with strong social cohesion

The way that Zimbabweans have coped with economic crisis in its different guises speaks to their resilience and resourcefulness as driving force of any trends going forward. In addition to the entrepreneurial spirit witnessed, society is characterised by strong social cohesion.

Strong sense of “unhu”. The Shona term “unhu” refers to a social philosophy of mutual social responsibility, assistance, trust, sharing, caring and respect for others. Somebody who is “munhu” is a holistic person due to the community, not just a human being (Mandova, 2013). This strong collective functioning is a core finding of the qualitative demand-side research (qualitative study, 2015).

Relying on others to cope and plan ahead. FinScope (2014) supports the notion that society is the main risk-mitigating strategy. 67% of adults indicate that they have had to rely on family and friends for medical expenses and 66% for regular daily needs. Importantly, 53% relied on their family and friends to pay school fees for children. People also take into account the expectation of community support in planning for the future. Despite very limited resources, people do plan ahead. 71% of adults indicate that they are making provision for the future. The qualitative research shows that one of the principle mechanisms that Zimbabwean adults have to provide for contingencies is their community, as illustrated by the following quotes (qualitative study, 2015).

Interviewer: How do you relate to each other in the community?

Respondent: “We give each other assistance. Even if you are sick they help you to go to hospital.”

Remittance receiver, Female, 59 years old

Interviewer: So what would go wrong that would cost you money?

Respondent: “Aaah I don’t know but if its sickness or funeral the family would come together and put up some contributions to handle the funeral. The community would contribute too.”

Informal trader, Female, 17 years old

The financial service usage analysis in section 5 shows that such reliance on the community translates into an important role for informal and community-level financial services.

¹¹ Cenfri estimate based on statistics from the UNDP (UNDP, 2011) and Southern African Migration Project (Crush, Chikanda & Maswikwa, 2012)



Placing even more value on education

The educated nature of the population, which will be outlined in the next sub-section, has made no small contribution to their ability to cope with the economic shocks so far. It is clear that Zimbabweans strongly value education and continue to be willing to invest in it.

The next sub-section unpacks the trends and features underlying this snapshot picture in more detail.

2.2. Historical context

Figure 2 documents the growth and inflation experience in Zimbabwe's post-independence history. It shows reducing growth over the 1980s, a volatile growth experience over the 1990s, and sharply negative growth in the 2000s corresponding with spiralling inflation. This was followed by a return to growth and price stability since 2009, before the advent of deflation and a tapering off in the growth rate.

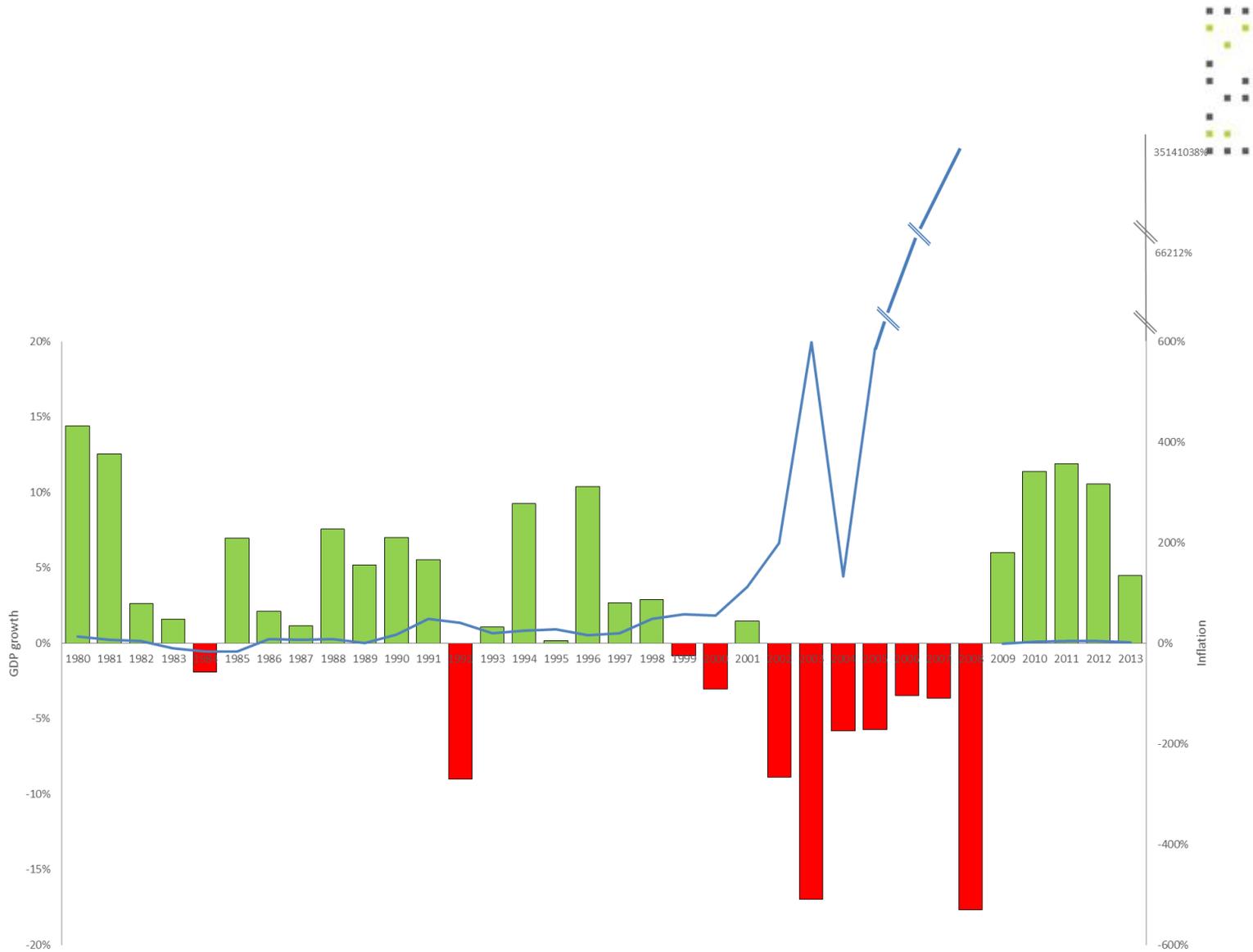


Figure 2: Timeline for key events in Zimbabwe (1980 – 2013)

Source: World Bank, 2015; ZIMSTATS, 2014



Below, the trends in each decade that gave rise to this economic experience are unpacked in more detail.

2.2.1. The 1980s –Social investment

Post-independence push for socially inclusive growth. Zimbabwe gained its independence in April 1980, transitioning to majority rule after the signing of the Lancaster House Agreement and the Independence Constitution (1980). In the decade between 1980 and 1990, the Zimbabwean government pursued a policy of socially inclusive growth. Within the Growth with Equity policy approach, public expenditure for social upliftment (averaging 45% of GDP in the decade after independence) was focused on addressing socio-economic disparities through investment in human resources and support to smallholder farmers (World Bank, 1995).

Big investments in human capital. In the decade between 1980 and 1990, the share of GDP spent on education averaged 20%, with health averaging 7%. National minimum wages were instituted in July 1980, increasing wages significantly for the workforce. The number of primary schools nearly doubled in the first 5 years after independence, increasing from 2 401 (1979) to 4 234 (1985), and to 4 723 in 1999. Secondary school institutions rose from 177 in 1979 to 694 in 1981, and by 1999 numbered 1 548. At secondary school level, enrolment rates more than doubled from 66 215 (0.94% of the total population) in 1979 to 148 690 (1.96% of the total population) in 1981 and would later rise to 834 880 (8% of the total population) in 1999¹². Over the course of the 1980s alone, secondary enrolment rose from 8% to 50%. Trained teachers increased from 28 455 (1980) to 63 718 (1996) (World Bank, 1995).

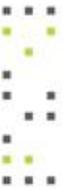


Figure 3: Zimbabwe HDI trends (1980 – 2013)

Source: UNDP (2012)

Human development gains. Social expenditure in the decade following independence had the effect of improving various social indicators: As the figure above indicates, Zimbabwe’s Human Development Index (HDI) ranking increased from 0.437 to 0.488 in that first decade.

¹² UNDP (1999) Zimbabwe Human Development Report 1999.



Furthermore, as indicated in Figure 4 below, life expectancy rose from 59 years to 60.8 years, under-5 mortality (per 1 000 births) decreased from 99 to 76. In the same period, the percentage of the population immunised increased from 25% to 80% (UNDP, 1999).

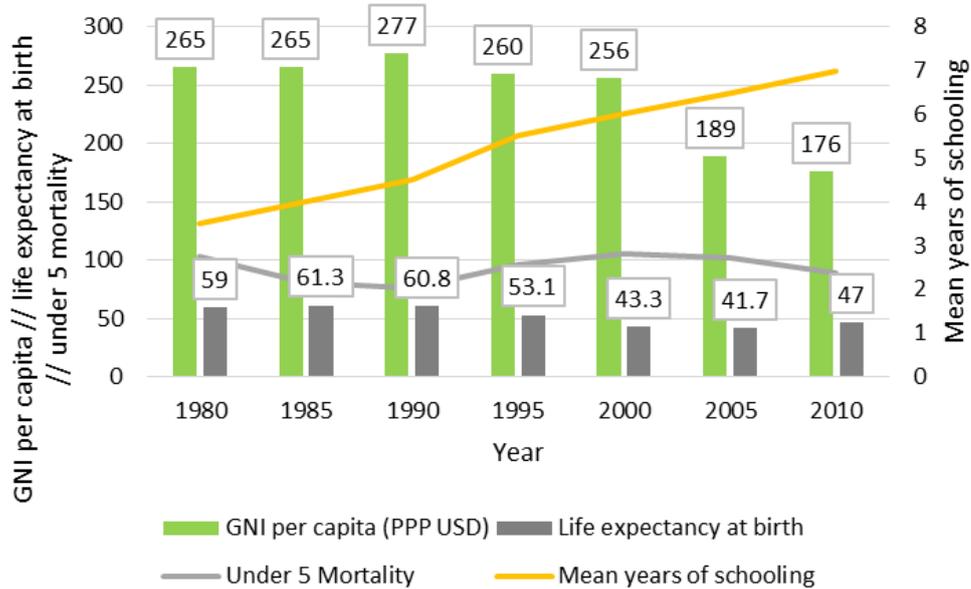


Figure 4: Social indicators (1980-2010)

Source: World Bank (2015)

Cost implications of large-scale social investment. While social development saw marked improvements, the level of expenditure was unsustainable against the background of a stagnated GDP and resulted in an increase in the fiscal deficit (World Bank, 2004). As shown in the figure below, the decade between 1980 and 1984 was characterised by erratic growth: the GDP growth rate fell from 14.4% in 1980 to -1.9% in 1984, recovering to 6.7% the following year and then declining in 1986 (2%) and 1987 (1.3%). The GDP growth rate then rose to 7.5%. By 1989, GDP at constant prices was just over USD6 billion.

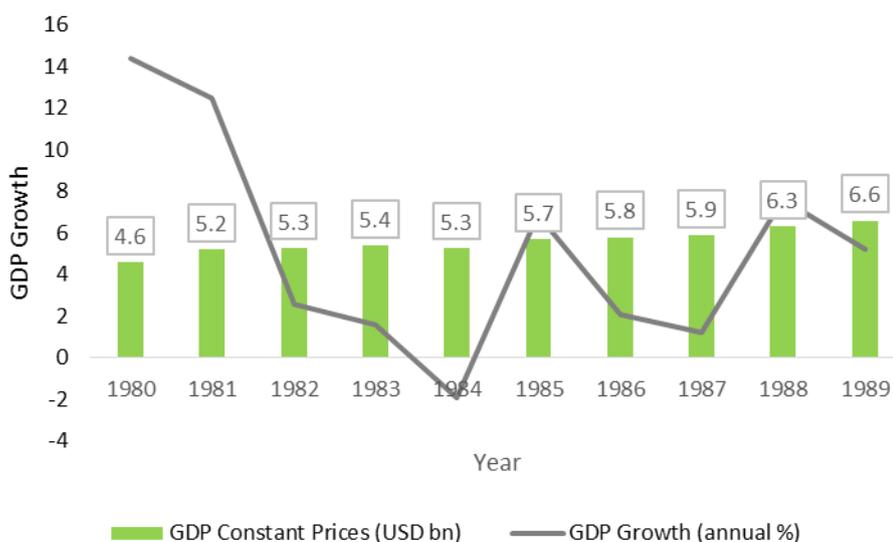


Figure 5: GDP and GDP growth rate: Zimbabwe (1980-1989)

Source: World Bank (2015)



2.2.2. The 1990s – Economic reform and decline

Back to the drawing board. As the country entered the '90s, concerns surrounding sluggish economic growth led to the introduction of the 5-year Economic Structural Adjustment Programme (ESAP) in 1991. The government's aim in liberalising the economy through ESAP was to stimulate economic growth, encourage foreign direct investment (FDI), reduce fiscal deficits (in part through cost recovery for social services), liberalise trade and the foreign exchange regime, undertake domestic deregulation, privatise parastatals and reduce unemployment and poverty (World Bank, 1995). Key targets for the programme in the years between 1991 and 1995 included: the achievement of a 5% GDP growth rate, to increase FDI to 25% of GDP, to meet a 9% growth rate in exports, reduce inflation to 10% from 17.7% and reduce the budget deficit from over 10% to 5% of GDP (GOZ, 1991).

Structural adjustment at a cost. The introduction of ESAP coincided with a crippling drought in 1992. It was severe enough to result in a recession (GPD growth fell by 9%), but implementation of the programme continued. 1995, yet another drought year, contributed to a drop in GDP growth from 9% the previous year to 0.16% (World Bank, 2015). Figure 6 below illustrates this trend. With the push for cost recovery for social services and reduction in fiscal deficits, public expenditure on health and education fell in the '90s. From 3% of GDP on health expenditure and 6.5% on education in 1990, government spending on these line items fell to 2.2% and 5.7% by 1995 (UNDP, 1998). Having risen to USD58 per capita (1990) from USD37 per capita (1980), health expenditure by the state was reduced to USD36 following the implementation of ESAP.

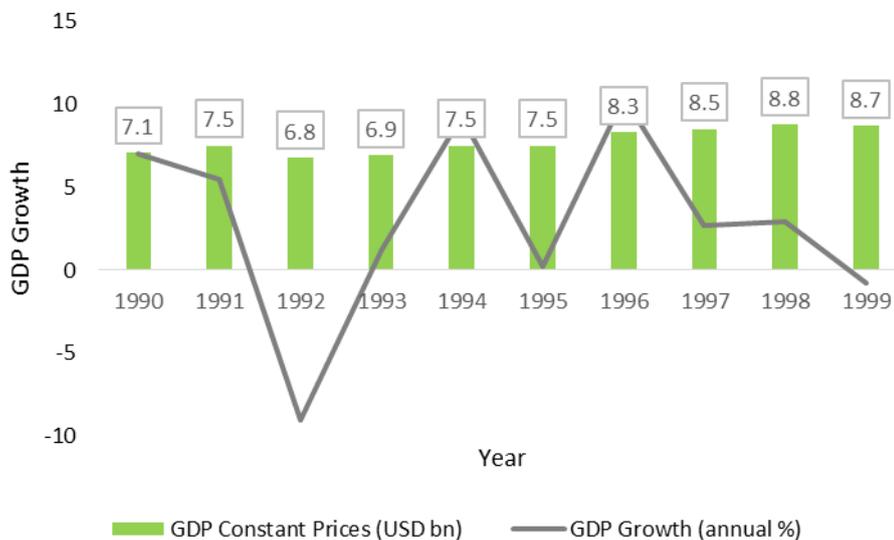


Figure 6: GDP and GDP growth trends (1990s)

Source: World Bank (2015)

Mixed growth results. In the five years following the initiation of ESAP growth for each of the respective years was very uneven, ranging from -9% following a drought year and 10% at its highest in 1996. In total over the decade, the economy grew from a GPD of USD6.99 billion in 1990, to USD8.71 billion in 1999, representing an annual average growth of below 3%, well below the set target of 5% per annum (World Bank, 2015).



Further decline. ESAP was followed by a similar programme: ZIMPREST (Zimbabwe Program for Economic and Social Transformation) between 1996 and 2000 – a programme aimed at addressing declining growth. However, economic decline continued under ZIMPREST, precipitating high budget deficits, low foreign currency reserves, and high inflation (Barry, Honohan & McIndoe, 2009). The Zimbabwe stock market crashed in 1997, further contributing to economic decline (Brian Raftopoulos, 2009).

Result: reduced economic and social circumstances – with education as notable exception. Over the course of the 1990s, Zimbabweans experienced increasing poverty with gross national income (GNI) per capita falling from USD277 in 1990 to USD256 in 2000 (UNDP, 1998). Life expectancy at birth fell by 17.5 years in the same decade to 43.3 years. Maternal mortality rose from 168 per 100 000 live births in 1990 to 880 per 100 000 live births in 2005. Under-5 infant mortality increased from 76 to 106 per 1 000 live births over the period in question (World Bank, 2015). Educational attainment continued to rise. Whereas the mean years of schooling in 1990 were 4.5 years, by 2000 this had risen to 6 years (UNDP, 2013).

2.2.3. The 2000s – Economic contraction, hyperinflation and stabilisation

2.2.3.1. Macro trends

Decisive land reform policy. The decade beginning 2000 was marked by a number of reforms through acts such as the Fast Track Land Reform Programme (FTLRP) 2000, which was a follow-on to expedite land reform that began with the 1992 Land Acquisition Act and the Indigenisation and Empowerment Bill (2007) (Masiwa, 2011).

Devastating hyperinflation. The 2000s saw significant economic contraction that culminated in hyperinflation between 2007 and 2008. This resulted in extensive wealth destruction and an unprecedented decline in GDP. From 2000 to 2008, the economy had contracted by 50% - from USD6.7 billion in 2000 to R4.4 billion in 2008 – returning to the equivalent of its 1953 GDP (Chitiyo & Kibble, 2014). The GDP growth rate was -17% in 2008 (World Bank, 2015). The inflation rate grew rapidly in the same time period. Whereas average annual inflation was 56% in 2000, it had reached 198% in 2002 and 585% in 2005. From 2007 the country experienced hyperinflation, and the inflation rate peaked at 500 billion percent in September 2008 (World Bank, 2011). At the time that hyperinflation was halted at the turn of the decade, the Zimbabwean dollar was trading at 35 quadrillion to the US dollar (IMF, 2009).

Multi-currency system as only way out. The US dollar and the South African rand were informally adopted as tender during hyperinflation as a means for businesses and adults to hold value and transact. The Central Bank formally introduced a multi-currency system in May 2009 which allowed for the US Dollar, the South African rand, the British pound and the Euro to become legal tender (commonly referred to as “dollarization”). The Zimbabwean dollar ceased to be tender with immediate effect and no arrangements were made for some form of exchange (Noko, 2011). Thus bank account balances, credit balances and insurance policies held in Zimbabwean dollars ceased to hold value overnight, leading to a wholesale destruction of wealth and value, even if the value of such wealth was nominal given hyperinflation.

Initial economic rebound. As shown by Figure 7, dollarization effectively stabilised the economy. Growth rebounded to 5.98% in 2009 and peaked at 10.6% in 2011 before declining to 4.4% by 2014 - a figure that was subsequently revised downward by the World Bank to 1.5%



(World Bank, 2015). The inflation rate fell back to single digits, rising from -0.5% in 2009 and peaking at 3.7% in 2012, before dropping to 1.6% in 2013 (World Bank, 2015).

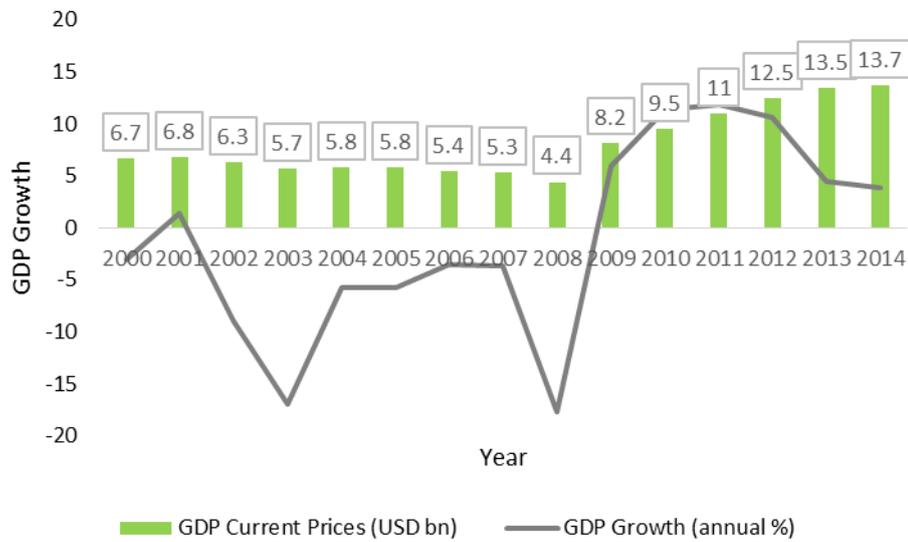


Figure 7: GDP trends (2000 – 2014)

Source: World Bank, 2015

Deflation. By October 2014, Zimbabwe started to experience deflation. Inflation had decelerated to -2.4% year-on-year by December 2015 (as shown in the figure below). The reduction in prices can be ascribed to a number of factors. The shift to foreign currency meant that the country experienced a decline in money supply. The South African rand (the source of most of Zimbabwe’s imports) depreciated by about 40.2% against the US dollar between February 2, 2015 and February 1, 2016 (Oanda, 2016). Inflation developments have continued to be influenced by the fluctuating USD/ZAR exchange rate, international oil prices and local utility charges.

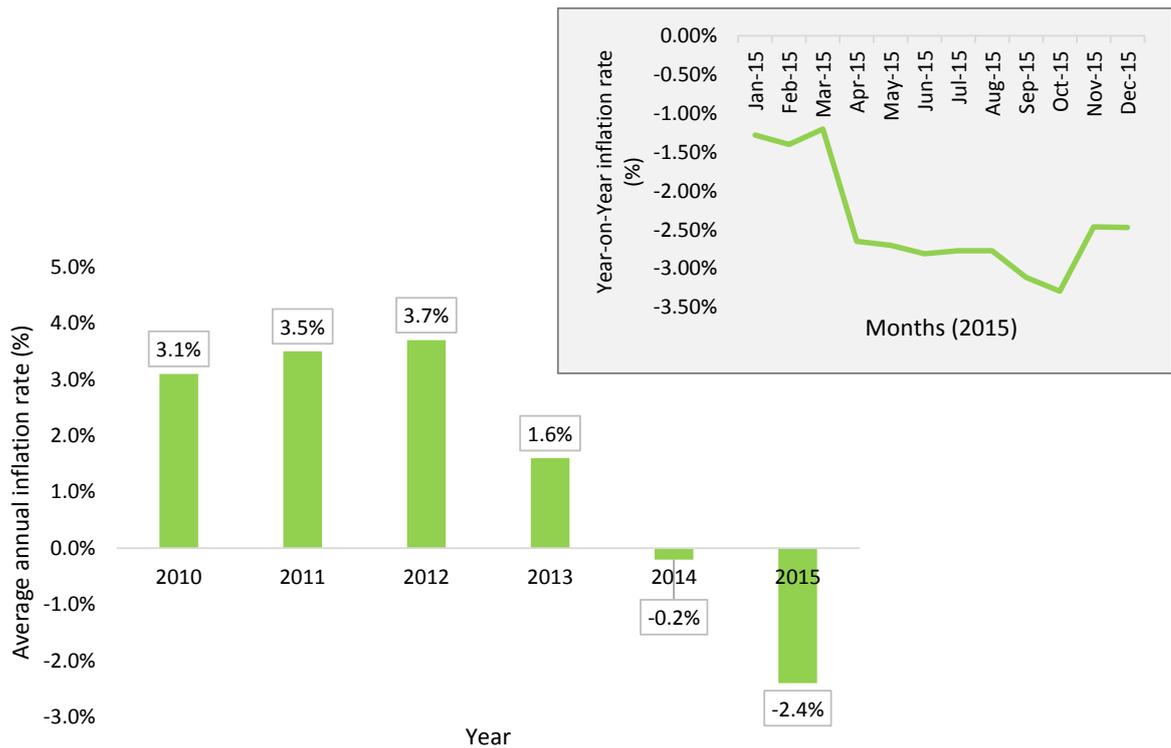


Figure 8: Inflation profile (2010 – 2015)

Source: RBZ, 2015

Dutch Disease slows growth, exacerbates industrial decline. Figure 9 illustrates industrial capacity utilisation from 2000-2013. The growth slow-down experienced after the initial strong rebound is the result of limited investment capital, policy uncertainty, a declining consumer base, and diminishing manufacturing and industrial capacity. Although available data shows a significant surge in the production of maize, tobacco and other agricultural produce, the mining sector has suffered due to lower commodity prices for the major products gold, platinum and coal, which in turn has been exacerbated by the effects of a strong US dollar – a term called Dutch Disease (see Box 1).

Box 1: What is Dutch Disease?

The introduction of the multi-currency system has resulted in a US dollar-based economy in which exports cannot compete on the international market. Dutch Disease is classically defined as “the deindustrialisation of a nation’s economy that occurs when the discovery of a natural resource raises the value of the nation’s currency, making manufactured goods less competitive with other nations, increasing imports and decreasing exports (Rodrik & Rosenzweig, 2010). While not the result of a natural resource discovery, the consequences of an overvalued currency are manifesting within the Zimbabwean context. Having adopted a currency which is increasing in strength, US dollar-denominated production and labour costs are proving to be too high for Zimbabwean exports to remain competitive.

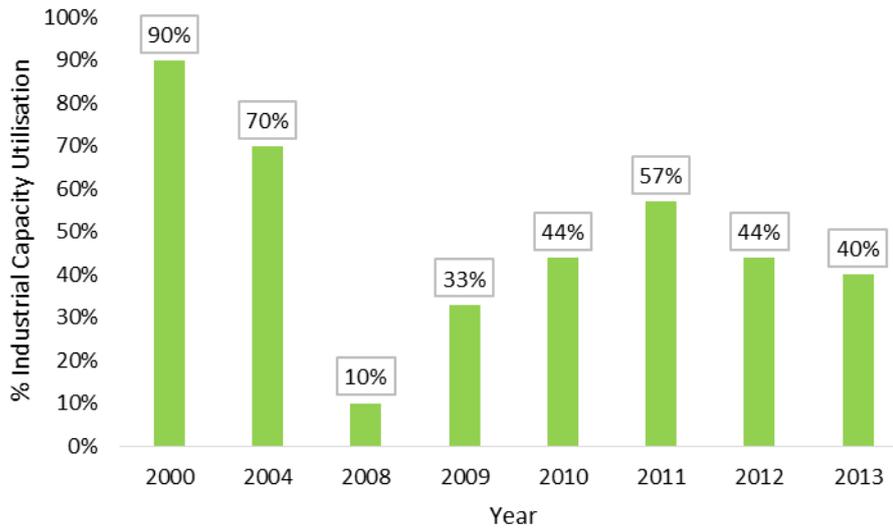


Figure 9: Industrial capacity utilisation (2000 – 2013)

Source: (CZI, 2015)

Manufacturing sector impacted by Dutch Disease. The manufacturing sector had already been suffering from competitive pressures due to high production costs, credit constraints, and lack of access to long-term capital, as well as high labour costs. These woes have been exacerbated by Dutch Disease. At its peak in 1992, the manufacturing sector comprised 26.9% of GDP. This share then reduced to 18% of GDP in 1999 and 15.5% of GDP in 2009, and by 2014 had dropped to 12.8%. Thus the economy is experiencing deindustrialisation and structural regression. According to the Confederation of Zimbabwe Industries (CZI), industrial capacity utilisation declined sharply from 35.8% in 2005 to 18.9% by 2007 and less than 10% by 2008 (CZI, 2015).

Agriculture economic contribution declining. Similarly, agriculture's contribution to GDP declined to 12% in 2014 from 15.1% (USD0.69 billion) in 2014. The services sector is also under-performing as a result of low disposable income due to the depression pressures in the economy. All in all, the World Bank forecasts that Zimbabwe's economy will continue to record low growth rates for the foreseeable future, projecting a GDP growth rate of 1% in 2015 and 0.6% in 2016. AfDB (2015)

Labour market dynamics contributing to declining productive output. Amidst diminishing productive capacity, employers face high wage bills due to very high minimum wage requirements and restrictive labour requirements which make retrenchment costly, further undermining viability of companies (stakeholder interviews, 2015). The only available option is salary cuts, which have become commonplace. A July 2015 Supreme Court ruling which opened a loop hole regarding termination of employment resulted in 20 000 job cuts. However, the House of Parliament soon passed an amendment to the Labour Act in October 2015 (Supreme Court of Zimbabwe, 2015).

Shrinking employment base. Unemployment has continued to increase as corporations fold under the constraints of the economic environment they operate in. In 2014, the total number of retrenched adults amounted to 227 000 (ZIMSTAS, 2015). The manufacturing sector alone shed 55 443 jobs between 2011 and 2014 due to 4 610 company closures (MOFED, 2015). In



2014, only 700,000 adults were formally employed, down from 1.24 million in 1998 (FinScope, 2014; Luebker, 2004).

Policy makers in a straitjacket. Another unintended consequence of the multi-currency system is that the currency does not fall under the purview of local policy makers. Hence, the RBZ is unable to manage monetary policy affairs. It cannot control money supply; nor can it revise interest rates. Fiscal policy instruments are also undermined, as government spending is limited by revenue available to the state in the constrained economic environment. In 2015, government revenue accounted for 28% of GDP, but the state wage bill alone comprises 20% of GDP, or 77% of government expenditure (IMF, 2015). The combination of anaemic growth, high levels of skilled emigration and a currency that the state cannot control has left the government hamstrung.

International relations loosening up. An important upside of stabilisation has been an improvement in international relations. During the economic crisis years, Zimbabwe's situation was exacerbated by the effect of international sanctions. In recent years, Zimbabwe's engagement with the international community has re-opened and continues to increase (European Union, 2015).

Current account: unsustainably large trade deficit. The decline in agricultural and manufacturing production has led to large-scale importation of goods and declining capacity utilisation continues to widen the supply gaps in the domestic economy, creating a growing demand for imported goods. Dutch Disease is exacerbating Zimbabwe's already negative trade balance. As illustrated in Figure 10 below, by 2001 the trade deficit was USD139 million (3% of GDP). At its greatest the gap had increased to 46% of GDP (USD5.1 billion) in 2011, reducing to 24% of GDP (USD3.4 billion) in 2014. Lack of export competitiveness coupled with subdued capital inflows continue to adversely affect the external position.

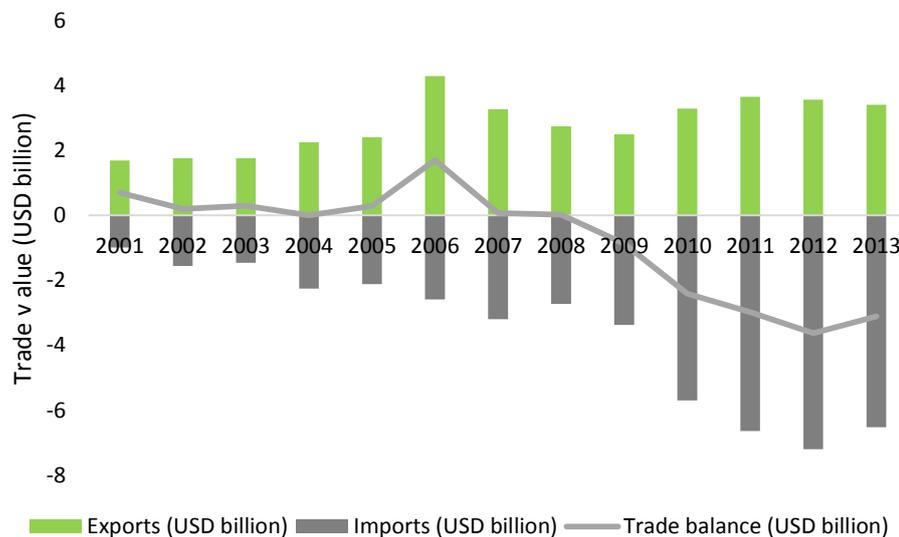


Figure 10: Trade statistics (2000 – 2014)

Source: OEC, 2016

Privatisation of infrastructure. The decline in infrastructure investment over the last decade has meant that private actors, both businesses and individuals, have made investments in



infrastructure to facilitate business and their day to day lives. Mining companies have invested in road infrastructure to facilitate transportation of ore. The private provision and sale of drinking water has increased in urban areas due to shortages in municipal supply. Similarly, with decreased funding towards education and health sector infrastructure, the emergence of privately funded initiatives has increased but is not sufficient to cover the infrastructure shortfall.

Mobile network infrastructure growing at high cost. One area of private investment in infrastructure that is particularly relevant to the unfolding financial inclusion storyline analysed in MAP is the mobile network. The total number of base stations increased by 9.7% to 4 882 between 2013 and 2014, an increase of 434 (POTRAZ, 2015). The need to self-fund base towers and other infrastructure, however, increases costs for providers and other enterprises and additionally decreases competitiveness in pricing (stakeholder interviews, 2015). With the increasing importance of mobile money for financial inclusion in Zimbabwe, these operational costs are passed on to consumers and actively work to diminish inclusion.

2.2.3.2. Socio-economic implications

Severe socio-economic losses. The macroeconomic picture painted above has severe socio-economic ramifications at the household level – *real people have to continue to live their lives in these dire circumstances.* While significant social gains had been achieved in the two decades following independence, Zimbabweans experienced declining social conditions after 2000. As discussed above, by 2005, Zimbabwe's HDI index had fallen to 0.412 from 0.488 at its highest in 1990 (UNDP, 2016). Infant mortality per 1 000 live births peaked at 106 in 2005 and life expectancy at birth, which had been 59.2 years in 1990, fell to a low historic level of 43 between 2001 and 2004. The hyperinflation period and dollarization brought about further losses via a steep decline in assets, as value held in Zimbabwean dollars was destroyed and formal employment declined.

Post-stabilisation upswing in some indicators, but new currency regime brings new impacts. With the increase in economic growth after stabilisation came an upswing in various social indicators. Life expectancy at birth increased to 60 years in 2013 (World Bank, 2015)¹³. Infant mortality at birth had declined to 71 in 2015 and HDI increased steadily to 0.492 in 2013 (World Bank, 2015). However, with dollarization and the effects of Dutch Disease, people are again taking the brunt of the suffering: retrenchments of formal employees are on the rise, average incomes are declining, and there is a shortage of currency in circulation.

A number of coping strategies. In addition to an even greater reliance on social support structures (which will be unpacked in section 4), people have coped with this situation in three main ways:

- *Blossoming informal sector.* Given low formal employment, many economically active adults are turning to informal avenues to generate an income. Approximately 3 million adults are involved in MSME (72%) and agricultural activity (28%). Of the existing

¹³ Note that ZIMSTAT 2012 Census data indicates life expectancy at birth for 2012 as 52.7 years.



microenterprises, 76% function in the informal sector. Furthermore, 80% of the informally employed are own-account workers¹⁴. (FinScope, 2014).

- *Looking abroad.* The early 2000s saw a rapid rise of Zimbabwean emigration to South Africa, the United Kingdom, Australia, the United States, Canada and other countries. The bulk of emigrants, an estimated 70%, reside in South Africa (IOM, 2010). A large proportion of emigrants are not regularised immigrants in their host countries. Of those that are, a large majority utilise formal financial services to remit, while those functioning outside of this are relegated to the use of informal mechanisms¹⁵. 79% of surveyed Zimbabwean adults are clients of formal remittance services (Truen & Chisadza, 2012; FinScope, 2014). Remittances have continued to grow as a formally recorded source of foreign income, from around USD300 million in 2009 to USD837 million in 2014 (RBZ, 2014). Should informal remittances be taken into account, the role of remittances to household livelihoods is even greater.
- *Education, education, education.* The one socio-economic indicator that has continued to improve throughout the crisis is educational attainment. Educational attainment rates are high, with 97% of adults reporting some form of education (FinScope, 2014). As shown by Figure 11 below, mean years of schooling increased from 3.2 years in 1980 to 7.1 years in 2012. Of those surveyed by FinScope (2014), 51% had completed a secondary education and 8% had completed a tertiary education. Zimbabweans clearly place immense value on education and are willing to prioritise expenditure on education. FinScope (2014) found that as many as 1.2 million Zimbabwean adults (17% of adults) fund education via a savings mechanism, followed by 1.1 million (15.7%) who utilise credit for educational purposes.

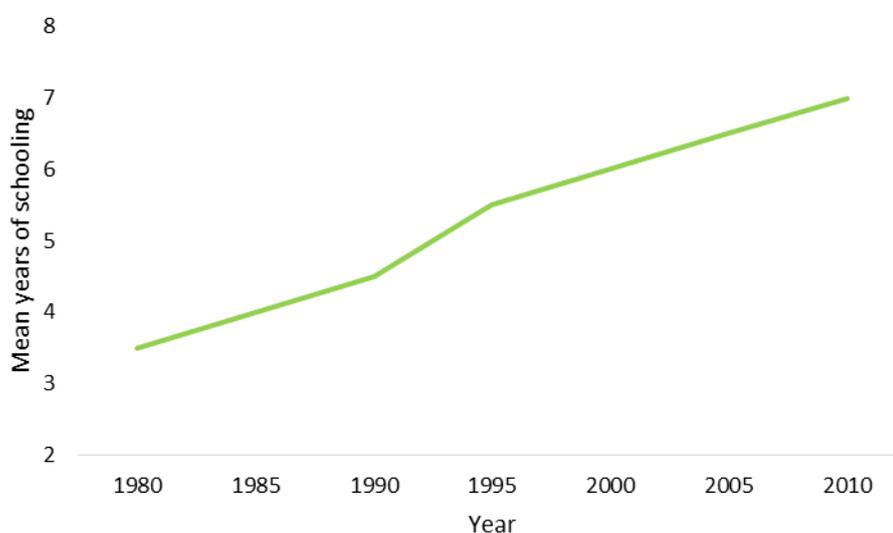


Figure 11: Educational attainment trends (1980-2010)

Source: UNDP, 2015

¹⁴ Own-account workers are those workers who, working on their own account or with one or more partners, hold the type of job defined as a self-employed job, and have not engaged on a continuous basis any employees to work for them during the reference period.

¹⁵ Various access barriers are highlighted in a study on the South-Africa SADC Remittances channel: <http://cenfri.org/remittances-and-financial-inclusion/the-south-africa-sadc-remittance-channel>



2.2.4. Summary

The snapshot of Zimbabwe painted in this chapter is one of a country with a constrained macroeconomic and socio-economic environment where the biggest cause for hope is the resilience of an educated population that continues to value quality education. The structural context constraints require intervention beyond what a traditional financial inclusion road map can address. The analysis in the rest of the document maps out the role of financial inclusion as part of the bigger picture solution, cognisant of the current context drivers.



3. Policy and regulatory framework

This section outlines the policy and regulatory framework applicable to financial services in Zimbabwe and the key regulatory issues from a financial inclusion point of view. The objectives of this section are to:

- describe policy approaches that condition provision of retail financial services;
- describe the primary pieces of legislation that govern the provision of financial services and some headline provisions that shape the current market;
- show how the approach taken by financial sector and other supervisors impact financial access in Zimbabwe; and
- identify the key issues in regulation and supervision of financial services that will shape the future of financial inclusion in Zimbabwe.

Key findings: policy and regulatory framework

Policy framework:

- Macro policies contribute to the constrained economic environment that forms the financial sector playing field on a number of fronts. Notably, dollarisation and economic instability interrupted government's ability to implement financial sector reform.
- Government has implemented several measures to promote financial stability, in the process creating a tiered banking system where a few relatively sound first-tier banks have established relationships with each other, while struggling banks fall into a second tier.
- The opening up of the space for mobile network operators to provide financial services has had a defining impact on the market.
- Government has a strong commitment to financial inclusion and has been following a collaborative approach with industry. Initiatives include proportional KYC requirements, a microfinance policy and a planned central credit registry. Industry has proven willing to work with government to further financial inclusion, including entering into a memorandum of understanding to, amongst others, reduce lending rates, scrap bank charges and pay interest on deposits. However, this has had some unintended consequences for viability in the banking sector.

Legal system:

- The legal system, including the presence of a customary law tier and a sound system of precedent, provides effective, broad-based access to legal recourse for most higher-value commercial matters. However, appropriate access to dispute resolution and justice in relation to consumer financial matters is a concern

Regulatory framework:

- A regulatory approach of "innovate, then regulate" has helped facilitate financial inclusion in a period when banks were severely limited in their ability to invest in inclusion initiatives.
- The Banks Act allows for the possibility of an interpretation of *Banking Business* to accommodate a range of low-risk retail services that can extend payment and agent activities outside of the banking sector.



- Mobile financial services are regulated under the NPS Act as well as internally developed policy guidelines, but there is a lack of clarity on how overlaps and conflicts of regulators and players are addressed. Draft e-Money guidelines provide for the dedicated licensing of mobile money operators under the RBZ for the regulation of all digital financial service transactions.

3.1. Policy environment¹⁶

This section considers the policy environment that conditions the market for retail financial services. Given the strong influence of the overall economic environment on the prospects for and direction of financial inclusion, the section considers the policy environment at three levels:

- Macro policy;
- Financial sector development policy; and
- Financial inclusion policy.

3.1.1. Macro policy

The context analysis suggests that policies at the macro level have arguably had a bigger impact on financial access outcomes than any specific financial sector policy. Below, the following macro policy areas are outlined:

- Dollarisation policy
- Foreign investment policy
- Foreign debt policy
- Labour policy
- Land and agricultural policy
- Fiscal policy

3.1.1.1. Manner and impact of dollarisation

Monetary policy instruments undermined. Regulators, industry players and consumers alike were affected by the advent of dollarization in 2009. Though necessary to bring stability, it removed much of the authority and monetary policy role of the central bank, including its role as lender of last resort and ability to influence interest rates (see section 2).

Conversion of assets and liabilities of financial institutions from Zimbabwean dollar to US dollar. In a press statement released by the RBZ, the demonetisation process was announced to start on 15 June 2015 and end on 30 September 2015 (RBZ, 2014). In relation to this, Statutory Instrument (SI) 70 of 2015 titled: “Reserve Bank of Zimbabwe (Demonetisation of Notes and Coins) Notice 2015” was issued which stated:

*“The bank shall pay any person who was the holder of a Zimbabwe dollar-denominated account at a banking institution on the 31st December 2008 at the following rates –
(a) five United States dollars for every account that was held with a balance of up to one hundred and seventy-five quadrillion Zimbabwe dollars; and*

¹⁶ This discussion draws on a review of relevant legal instruments, plus regulatory and industry consultations.



(b) for any Zimbabwean dollar balances above the amount stated in paragraph (a), one United States dollar to thirty-five quadrillion Zimbabwean dollars”

Commission to probe demonetisation of Zimbabwean dollar by pension funds and insurers. Pension funds and long term insurers were accused of benefitting from dollarization because they invested in physical assets such as buildings which retained value while their liabilities in the form of customers’ savings and Zimbabwean Dollar denominated policy liabilities became worthless and unenforceable. In response, the president appointed a commission of inquiry into the conversion of pensions and insurance benefits to the United States dollar. The commission is tasked with establishing fully the total value of pensions, as at March 31 2006 and as at March 31 2009 (stakeholder interviews, 2015; The Herald, 2015a; The Herald, 2015b).

3.1.1.2. Foreign investment policy

Indigenisation policy affecting FDI. The Indigenisation and Economic Empowerment (IEE) Act requires that foreign-owned companies worth more than USD500 000 sell at least 51% of their shareholding to locals. Significant uncertainty still surrounds the implementation of the indigenisation policy, which, according to the IMF, has a chilling effect on foreign investment (IMF, 2014).

Some progress in improving the business climate as a priority to restoring investor confidence and competitiveness. In January 2015, the government published an amendment to the IEE Act through which negotiations, approvals and certification are now executed by the respective line ministries (The Herald, 2015; Indigenisation and Economic Empowerment Act, Act 14/2007). This is considered an important step towards alleviating investor concerns by decentralising responsibilities to the relevant line ministries.

3.1.1.3. Foreign debt

Large debt overhang restricting re-engagement with international investors. Zimbabwe has a public debt of approximately USD9 billion, with arrears of approximately USD1.8 billion owed to the IMF, World Bank, AfDB and other creditors, such as the Paris Club (IMF, 2014).¹⁷ As a result, the country has not been able to access external financing, thus stifling growth prospects. To remedy this, the government has been engaging with the international financial institutions to develop strategies for clearing its public debt. Among these, the country is now well into its second Staff Monitoring Programme (SMP)¹⁸ with the IMF, with several milestones monitored, including the proposal of a roadmap for debt resolution with the multilateral institutions and the Paris Club (IMF, 2014).

3.1.1.4. Labour policy

Labour law swinging at two extremes. Several supply-side interviews revealed that labour law in Zimbabwe was historically restrictive and inflexible in terms of retrenchment (stakeholder interviews, 2015). Initially, permanent employees had to be provided with a three-month

¹⁷ The Paris Club is an informal group of official creditors, consisting of 20 permanent members, whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries. Further information available at: <http://www.clubdeparis.org/en/>

¹⁸ An SMP is an informal agreement between country authorities and IMF staff to monitor the implementation of the authorities’ economic program. SMPs do not entail financial assistance or endorsement by the IMF Executive Board.



notice and usually received three months' pay for every one year of service. This effectively rendered company restructuring improbable – a key contributing factor to an increasingly moribund commercial and corporate environment. This changed with a July 17 2015 Supreme Court ruling (Supreme Court of Zimbabwe, 2015), whereby an employer's right to terminate an employment contract by means of a three-month notice period alone, without any retrenchment costs, was recognised. This led to a wave of dismissals, indicating the degree to which companies and government departments required urgent restructuring (Dzirutwe, 2015; The Citizen, 2015). The Zimbabwean Parliament subsequently stepped in and made amendments to the Labour Act, which stipulated that employers may only terminate a contract of employment on three grounds: 1) for disciplinary reasons in terms of a code of conduct; 2) mutual agreement; or 3) if the employee has been engaged on a fixed-term contract for a specified task. If none of these three grounds apply, the employer cannot terminate an employment contract without having gone through a formal retrenchment process, including minimum retrenchment compensation contained in collective bargaining agreements and, failing that, one month's pay for each year of service (The Herald, 2015c; NewsDay, 2015; Labour Amendment Act, 2015).

Rigid, high regulated minimum wages. According to supply-side interviews, minimum wages in Zimbabwe are said to be high (stakeholder interviews, 2015). This is partly a result of the high cost of living, especially in urban areas where the formally employed reside. The minimum wages in Zimbabwe are governed by the Labour Relations Specification of Minimum wages (Amendment) Notice, S.I.307 of 2001. Sections 20 and 17(3) of the Labour Act empower the Minister to gazette minimum wages. The minimum wages are issued in respect of industries not covered by Employment Councils, and they are issued in respect of different industries.¹⁹ According to senior financial service officials consulted, these minimum wages represent a high cost for providers and inhibit their ability to adopt cost-saving strategies (stakeholder interviews, 2015).

3.1.1.5. Land and agricultural policy

Women marginalised in access to land. Around 50% of Zimbabwe's land mass consists of communal farming areas, where 70% of the population reside and small-scale farmers work average plot sizes of around two hectares (IRIN, 2008). Women typically gain access to land through their husbands because, according to customary law, the male head of the household is the recognised holder of the land (Constitution of Zimbabwe, section 23(3); Izumi, 2006). This precludes women from holding primary land rights, relegating them to holding secondary rights derived from and negotiated through the husband. As a result, women are by and large restricted in their ability to obtain agricultural financing backed by proof of land tenure as well as in exercising any proclivity to make long-term decisions regarding the farm, such as being part of out-grower schemes.

3.1.1.6. Fiscal policy

Constrained fiscal space leading to contractionary fiscal policy stance. Below expected revenue collection and rising recurrent government expenditure culminated in Zimbabwe recording a budget deficit of US\$19.58 billion in 2014 (The Herald, 2014). The shrinking formal economy and growing informalisation has continued to present a mounting challenge for

¹⁹ Minimum wages per sector can be found at <http://www.mywage.org/zimbabwe/main/salary/minimum-wage-1>



revenue collection, with government missing the first half of 2015 revenue target by USD98 billion. As a result, government has had to expand its revenue collection strategy by drawing on sources other than traditional income tax. This led to an increase in excise duties on fuel, beer and cigarettes, and an increased levy on tobacco growers (stakeholder interviews, 2015; The Herald, 2014a; The Herald, 2015d; Lopes *et al*, 2014)

Unable to capitalise Central Bank. Given the limited fiscal room, government has been unable to adequately capitalise the RBZ in order to restore its lender-of-last-resort function (RBZ, 2015). Some effort has been made to restore confidence in the financial sector. In December 2014, Treasury issued USD110 million eight-year bonds to raise funds to capitalise the RBZ. An undercapitalised RBZ directly impacts the capacity of the institution to restructure the financial services sector (Daily News, 2014).

3.1.2. Financial sector development policy

This section considers the policy environment particular to the financial sector. The aim of this section is to draw from the macro-level issues identified in the previous section and hone in on specific issues relating to the financial sector and financial stability.

Government approach to financial sector development moving within a more constrained space. Since dollarisation, government's ability to implement rapid financial sector reform has been interrupted. One of the key impediments to this is the lingering instability still present in the market (stakeholder interviews, 2015).

Financial stability a focus area for the state. Government has undertaken several initiatives in efforts to galvanise financial sector stability. The Zimbabwe Asset Management Corporation (ZAMCO), an asset management company, was established to purchase non-performing loans (NPLs) from banks with funding from various sources including government. According to the January 2015 Monetary Policy Statement, based on its phased approach to the acquisition of NPLs, ZAMCO has been focusing on the acquisition of the top 100 NPLs across the entire banking sector during the period under review (RBZ, 2015).²⁰ The RBZ has also taken stricter action against distressed banks that had been struggling to recapitalise by engaging with their respective boards and shareholders with regards to proposed turnaround strategies. This led to the closure of some banks against the background of unsuccessful recapitalization initiatives and the resultant failure by the banks to trade out of solvency and liquidity challenges (see section 8.2.1).

Emergence of a de facto tiered banking system. Efforts to restore financial stability have inadvertently created a tiered banking system where a few relatively sound first-tier banks have established relationships with each other, while struggling banks fall into a second tier. The tiering effect is also being underpinned by a flight to quality by the market, resulting in a disproportionate concentration of liabilities in the higher tiered banks, which was acknowledged by many banks interviewed (stakeholder interviews, 2015). Another example of the *de facto* tiering is the launch of a USD200 million interbank facility guaranteed by African Export Import Bank (Afreximbank) in March 2015. The facility is structured as a collateral swap and intended to promote interbank lending in the country (see Box 7). The drawback of the facility however is that smaller banks generally struggle to raise the eligible collateral

²⁰ The top 100 NPLs amounted to USD188 million, which accounted for 77% of the total portfolio that had been offered for sale to ZAMCO in the first phase. At the time of writing, ZAMCO had acquired USD157 million of NPLs (see Box 7 for further information)



necessary to participate in the interbank market, and therefore continue to face short term liquidity constraints.

Opening space for MNOs to deliver financial services. Traditionally, mobile financial services were rolled out in a bank-led model on a contractual basis between the bank and the MNO, in line with the approach that payment services were the sole domain of the banking industry. MNOs have introduced electronic payment services of their own, with a bank only providing a trust account. Most of this has happened beyond the financial sector regulator in the nebulous area between the communications regulator and the RBZ. The RBZ is currently developing regulations to supervise the services, based more on the banking domain approach where subsidiaries of MNOs are intended to be registered as payment services operators and are directly regulated as financial institutions (stakeholder interviews, 2015). Ownership of the mobile platform and access to communications channels provide MNOs with possible competitive advantages over the banks (see section 8.1).

Policy changes impacting cross-border flows to Zimbabwe. The introduction by the RBZ of the enhanced policy on international remittances through the Authorised Dealer with Limited Authority (ADLA) in April 2015, resulted in the registration of more than 30 money-transfer agencies. The new policy is meant to improve confidence in the use of formal channels to transfer remittances (RBZ, 2015). This resulted in the processing of more applications to provide remittance services. Importantly, the ADLA framework encourages financial inclusion by embracing electronic money transfers into electronic depositories like the e-wallet and debit cards. Given the size of the Zimbabwean diaspora in South Africa, exchange control regulatory changes by the South African Reserve Bank (SARB) also have direct implications for cross-border changes. In a move that is expected to increase flows from South Africa to Zimbabwe, the SARB ruled that financial institutions will no longer be required to obtain proof of residence or a South African tax number for cross-border transactions, provided the amount is less than ZAR3 000 per day or ZAR10 000 per calendar month (Financial Intelligence Centre Act (South Africa) 38 of 2001, June 2015).

3.1.3. Financial inclusion policy

Financial inclusion a priority area for Government. In a speech delivered in March 2015, Mr. N. Mataruka, Director of Bank Supervision at the RBZ, highlighted financial inclusion as part of a broader agenda for financial sector development (Mataruka, 2015). This is confirmed in the draft National Financial Inclusion Strategy published for comment at the end of 2015. The RBZ has adopted a bank-led model to promote financial inclusion and strives to create an enabling environment that facilitates competition and fosters financial innovation. This includes sustained growth reported in agent banking, mainly through the use of Point of Sale (POS) devices located at local retail shops and other merchants. As outlined in section 7, the number of mobile money agents per 100 000 adults increased from 0.27 in 2010 to 335.71 in 2014. Given this development, the RBZ is working on guidelines to guide the market on agent banking operations.

Collaborative approach. Government and regulators have opted to work in tandem with financial service providers to create an enabling environment for financial inclusion. One such effort was a memorandum of understanding (MOU) between the RBZ and the banks in February 2013 (RBZ, 2013), under which institutions agreed to reduce lending rates, scrap bank charges and pay interest on deposits among other reforms. Considering the spare revenue streams and limited capital levels of most of the banks, it is remarkable that they



voluntarily took this step with the RBZ. This possibly signals a more collaborative approach taken in developing the financial sector to make it more inclusive. The MOU was not renewed due to the impact on the revenue and viability of the banks, together with several operational challenges.

Proportional requirements to reduce barriers to access. The RBZ issued two circulars in 2011 introducing simplified risk-based KYC requirements to facilitate the opening of bank accounts by low income groups (Circular No. 1, 2011; Circular No. 2, 2011). Proportionality has however not been instilled across regulatory bodies.

Microfinance policy to develop the microfinance sector. The National Microfinance Policy, released in 2013, was developed through collaborative work by the National Taskforce²¹. The aim of the policy is to provide a “strategic framework and roadmap for the development of a well-integrated and sustainable microfinance sector in Zimbabwe”.

Establishment of a central credit registry. Given that one of the barriers to financial inclusion is the unavailability of comprehensive credit information on credit worthiness of potential borrowers for both banks and MFIs, the RBZ is in the process of establishing a Credit Registry that will hold information for the full breadth of the sector (RBZ, 2015).

Policy framework does not yet facilitate efforts to incorporate the informal sector. A number of banking institutions have set up SME divisions to provide financial services and capacity building to MSMEs and have increased outreach in previously unbanked areas. SME policy in Zimbabwe however still faces some shortcomings. The process for MSME registration is still highly centralised and the cost of USD600 to register presents a challenge for micro enterprises (stakeholder interviews, 2015). As a result, MSMEs still pose a risk for banks and other lenders because they do not have the required paperwork.

Consumer protection financial literacy issues remain largely unaddressed. According to the World Bank (2015), gaps were identified in the overall consumer protection legal and regulatory framework, and financial literacy and capability among consumers of financial products and services. This related to, among other things, the increased availability of mobile financial services raising important consumer protection issues; significant gaps in the consumer protection framework in the microfinance sector; and limited capacity and resources of regulators to supervise and enforce new consumer protection and financial literacy laws.

3.2. Regulatory framework

This section sets out the overall regulatory scheme within which formal financial services in Zimbabwe function. The intention is not to provide an exhaustive description, but rather to focus on those specific rules that influence access to financial services for adults and households.

²¹ Membership comprised of Government Ministries, apex organisations of microfinance and lenders, microfinance institutions, development partners, and the RBZ



3.2.1. Legal system

Roman Dutch and English Law-based legal system. Zimbabwe is a constitutional democracy with a pluralist legal system. Much of the received law has been adapted and changed over time through legislation which is authoritative. The received or common law is Roman Dutch-based with a very strong English Law influence, together with a constitutionally recognised and institutionalised customary legal system (Saki & Chiware, 2007).

Customary system has impact on property rights or rights of use based upon gender. Although the constitution provides for gender equality and economic rights, customary law perpetuates gender and economic biases which are constitutionally protected (Customary Law and Local Courts Act, Act No. 2 of 1990, amended through Act No. 9 of 1997). Practical examples are the access to land title in customary areas by women, and the access to collateral by women for the purpose of productive credit.

The legal system operates on different tiers. At the bottom, the Local Courts or Chief's Courts have limited jurisdiction over customary, personal law and some status matters. This is followed by the Magistrates courts, which have limited jurisdiction over personal law, customary law, civil and criminal matters. The lower-tier courts do not set precedents, but in accordance with a developed *stare decisis* doctrine are bound to follow precedents of higher courts. The lower-tier courts are the primary means of access to justice and dispute resolution for most Zimbabweans.

The upper tier of the legal system consists of the High Court and Supreme Court, which hear appeals and matters of high monetary value and where important precedents are at stake. There are specialist divisions of the High Court to deal with Labour and Administrative matters. The Supreme Court is the final court of appeal in all matters and has original jurisdiction over constitutional law matters.

Precedent decisions emanating from the legal system are of a standard that underpin a level of predictable certainty in most commercial matters (excluding commercial matters with socio-political entanglements). The Zimbabwean legal system has a long tradition of impartiality and ethical standards in consistently applying the law according to received principles. The received law is a robust system of legal principles that have been honed and finely tuned since antiquity. The application of these sophisticated received legal principles is however subject to the constitution and has become increasingly constrained by legislative enactments. Zimbabwean precedents are cited in South Africa, Namibia, Lesotho and Swaziland case law.

Effective access to courts, timely hearings and judgement process, proficient execution of judgements and affordable court costs underpin access to justice in respect of most commercial matters. International legal bodies, such as the International Bar Association (IBAHRI), have reported on aspects that bring into question the separation of powers and the rule of law in Zimbabwe (IBAHRI, 2011). However, structurally and capacity wise, the Zimbabwean legal system does appear to provide effective and timely access to courts for commercial matters in a manner with the potential to positively impact financial inclusion. Despite a lack of case automation the Zimbabwean courts and processes are much more efficient and effective than their southern neighbour South Africa in civil proceedings, from filing to judgement (average 261 days vs SA 520) (World Bank, 2014). Based on a claim of USD5000 state court costs amount to 13%, which is reasonable for a developing economy.



Private legal counsel costs render the enforcement of commercial agreements only viable for high value matters. Private legal counsel costs average 70% based upon a USD5000 claim value, rendering most of the lower value commercial matters a high risk activity with a negative risk weighted outcome (World Bank, 2014). The cost of counsel has the potential to inflate the minimum value of credit agreements to levels beyond the grasp of all but the upper-middle class consumers. The cost of effective legal processes can also affect the balance of power in the contracting relationship between suppliers of financial services and consumers. Alternative commercial dispute resolution is available in Zimbabwe. However, arbitration facilities are largely based in Harare and according to an ILO report are regarded as quasi-courts, overly legalistic and with similar cost and therefore not currently aligned to the needs of financial service industry and the average consumer (Madhuku, 2012).

Appropriate access to dispute resolution and justice in relation to consumer financial matters is a concern. Given the costs and expertise involved in court and arbitration processes, there is a need for a specialist ombudsman with capacity to deal with banking and insurance consumer matters. Given the exceedingly low rate of recovery from legal processes of 16%, there is also a need for a more effective but just process for the realisation of security in order to support a viable credit market (World Bank, 2016). There is a need for protection of consumers against overselling, particularly to less informed consumers, and where contracts are overly burdensome or one-sided. During consultations it became apparent that based upon prudential and consumer protection considerations a material need exists to avoid extending or re-extending credit to over indebted consumers (stakeholder interviews, 2015).

3.2.2. Short overview of the financial sector regulatory landscape

Innovate then regulate approach taken by regulators. Financial services providers have introduced financial products where no regulations exists with regulators developing guidelines or regulations *ex post facto* (stakeholder interviews, 2015). For example, the innovation and introduction of electronic payments products and agency banking has already taken place but the regulator has only recently released or developed regulatory measures. This policy has enabled the development of effective alternative means of transacting, particularly in a period when banks were severely limited in the ability to invest in broader consumer initiatives.

Diverse financial sector with wide-ranging legislation. There are eight broad sub-sectors of financial services provision relevant to this report:

1. Statutory government banks;
2. Commercial banking sector;
3. Building societies;
4. Microfinance and money lending;
5. Provision of payments, including mobile payments platforms;
6. Insurance, pension funds and medical schemes;
7. Capital markets; and
8. Community-level financial services provided through co-operatives.

All of these are impacted by cross-cutting provisions, especially those relating to Anti-Money Laundering controls and deposit protection.



Deposit protection law. The Deposit Protection Corporation (DPC) was established in 2003 to provide compensation to depositors in the event of a bank failure. Currently the maximum cover level is pegged at USD500 per depositor per bank, which is paid immediately when a member bank has been closed. DPC gets its funding from quarterly premium levies collected from member institutions (Deposit Protection Corporation Act, Acts 7/2011, 9/2011, 2012)²². The impact of dollarization on the DPC and any potential liability to account holders is not clear. The DPC is a key decision maker with regards to the management of marginal and impaired banks. The DPC effectively has the power to determine key aspects of the bank rehabilitation or the winding up process. The covalence of the authority in this area between the RBZ and DPC can detract from an integral strategy to effectively manage the broader impact and risk of impaired institutions.

Recent AML/CFT legislative changes ushered in brighter financial services prospects. Prior to 2011, Zimbabwe was rated as substantially deficient in anti-money Laundering (AML) intuitions and controls and also lacking in effective measures to combat the financing of terrorism (CFT). The implications of being on the list of countries that have been identified as having strategic AML deficiencies was dire for the economy as a whole and for financial inclusion in particular. Fortunately, there have been substantial regulatory changes since 2012, bringing Zimbabwe in line with the FATF and ESAAMLG recommendations opening avenues for closer regional and international financial integration which is particularly relevant for cross border remittance from the diaspora, being a substantial contributor to GDP and a key element in financial inclusion.

The structure of the AML/CFT legislation is fragmented between older and recent legislation that are all in force.

AML/CFT legislation is fragmented between:

- Money Laundering and Proceeds of Crime Act [Ch. 9:24] of June 2013 (MLPC Act) and 2014 guidelines,
- Bank Use Promotion Act [Ch. 24:24] of 2004 including the six guidelines under this act issued from 2006 until 2013(act and regulations in force prior to the MLPC Act above also coming into force),
- Suppression of Foreign &International Terrorism Act, and
- Suppression of Foreign and International Terrorism (Application of UNSCR 1267 of 1999, UNSCR 1373 of 2001 and Successor UNSCRs) regulations , 2014

Although fragmented, the addition of the latest acts and guidelines in Zimbabwe make the AML/CFT regulatory regime reasonably progressive and appropriate for a developing country in a post-2012 FATF recommendation world. The legislation takes into consideration the 2012 FATF recommendations on the implementation of a risk based approach, but does so in a manner that is sensitive to the needs of a developing market by making effective use of appropriate FATF condoned exemptions and thresholds for single transactions in the form of reduced or exempted customer due diligence (CDD) measures and equally provides for mitigating measures against abuse of thresholds and exemptions or risk based reduced CDD measures. (Bank Use Promotion Act [Ch. 24:24] of 2004, MLPC Act, sections 15(1) (b) and 15(1) (c)). That said the opening of bank accounts is subject to the standard CDD measures and because there are no defined reduced CDD measures in the recent act, it creates a situation where one would have to apply the Bank Use Promotion Act and guidelines to the exclusion of the MLPC Act.

²² DPC membership consists of all operating banking institutions.



Current reduced CDD measures for single transactions:

- US\$5000 maximum per transaction
- US\$1000 per Wire transaction or remittance, irrespective of whether a single transaction or through an account

Documentation requirements are reasonably flexible. With the two acts and many guidelines being utilized interchangeably, a number of different types of officially issued identity documents may be validly used in the CDD proof of identification process. Proof of address can similarly be accomplished using a number of options of letters issued by a number of people, from professionals to prominent local customary and civil leaders to religious leaders. The wide scope of documents is sympathetic to the documentation available to more rural and lower income people.

Application of the AML/CFT regulation,

Financial institutions:

- banking institutions;
- securities sector (stockbrokers, asset managers, custodians);
- insurance companies;
- money transfer and currency exchange service providers;
- provision is made in Mobile Money guidelines but are not yet in force

Designated non-financial businesses and professions:

- The legal profession;
- The accounting profession;
- Estate agents;
- Precious stone and precious mineral dealers;
- Casinos
- Trust and company service-providers

Conclusion: The fragmented and covalent structure of the AML/CFT regulatory regime places a disproportionate burden on the opening of formal bank accounts which can regress financial inclusion, but yet also provides for reasonable and practicable requirements for single transactions that has a significantly positive impact on financial inclusion.

Below, relevant regulation for particular areas of the financial sector is outlined.

3.2.2.1. Banking regulation

The definition of a bank. The Bank Act (2004) defines a banking institution as:

“a company that is registered or required to be registered in terms of this Act to conduct any class of banking business in Zimbabwe”

Banking business is defined as:

“the business of accepting deposits withdrawable or repayable on demand or after a fixed period or after notice and the employment of those deposits, in whole or in part, by lending or any other means for the account and at the risk of the person accepting the deposits”



The classes of banking business in which a banking institution may be registered are—

“the business of a commercial bank; or

the business of an accepting house; or

the business of a discount house; or

the business of a finance house.”

An important aspect of the definition of banking business is that it requires both the acceptance of deposits together with the intermediation of those deposits at the risk of the acceptor. Therefore both deposit acceptance and intermediation have to occur in the same entity with the same funding in order for the definition of *Banking Business* to apply. Individual banking activities are restricted to licensed entities in instances where they coincide with banking business. The Banks Act therefore allows for the possibility of an interpretation of *Banking Business* that would not include the acceptance of deposits as agent or in terms of a payment scheme as long as there is no intermediation of the deposits for the account of the acceptor. It is therefore possible to accommodate a range of low-risk retail services that can extend payment and agent activities outside of the banking sector. A conservative interpretation of *Banking Business* and banking activities, although not strictly in accordance with the wording of sections two and five, would have the impact of reserving many lower risk activities to the banking sector and thereby reducing possible supply opportunities.

Sections five, six and seven link specific types of activities to different classes of banking business in an exclusive and commercially restrictive manner, requiring either complex corporate structures or multiple commercial relationships to support full service banking.

Licensing, regulation and supervision of banks. Banking institutions are licenced and supervised by the RBZ. Regulation of banks is conducted in accordance with the Regulations relating to banks (2000).

Minimum capital requirements. In July 2014, the RBZ raised minimum capital requirements for banking institutions, with banks expected to meet the capital requirements by 31 December 2020. Table 1 gives an overview of the current and new minimum equity capital requirements.

Type of institution	Current minimum equity capital requirement	Minimum equity capital requirement as of 31 December 2020
Commercial banks	25	100
Merchant banks	25	100
Building societies	25	100
Finance houses	15	60
Discount houses	15	60

Table 1: Minimum capital requirements for banks (USD million)

Source: RBZ, 2014



3.2.2.2. Microfinance Institutions

Licensing of MFIs. The Microfinance Act (2013) was passed to provide for the registration, supervision and regulation of persons conducting microfinance business in Zimbabwe. The act classifies two types of microfinance institutions – credit-only MFIs and deposit-taking MFIs.

Minimum capital requirements. Deposit-taking MFIs are subject to higher minimum capital requirements because they use depositors’ funds to extend credit. Minimum requirements for MFIs are shown in Table 2.

Type of institution	Current minimum equity capital requirement	Minimum equity capital requirement as at 31 December 2020
Deposit-taking MFIs (Microfinance Banks)	5 million	10 million
Credit-only MFIs (including moneylending institutions)	20 000	50 000

Table 2: Minimum capital requirements for banks (USD)

Source: RBZ, 2014

Overlapping MFI legislation creating confusion in this space. The Microfinance Act was promulgated with a view to amend the Money-Lending and Rates of Interest Act (MRIA) (2004). As it stands however, MFI regulation is fragmented with sections from both pieces of legislation being applicable to MFIs. Industry players have recommended that the MRIA be repealed and that all its useful provisions be fully integrated into the Microfinance Act, so that they will be one coherent piece of legislation governing the operations of all MFIs.

3.2.2.3. Payments

Legislation relating to national payments systems. The National Payments Systems (NPS) Act (2011) provides for:

“the recognition, operation, regulation and supervision of systems for the clearing of payment instructions between financial institutions, for the netting or other settlement of obligations arising from such clearing and the discharge of indebtedness arising from such netting or settlement; to make provision for the finality of payments and settlements made in accordance with such systems; and to provide for matters connected therewith or incidental thereto.”

Regulation and supervision of mobile financial services. The RBZ has used the NPS Act (2011) as well as internally developed policy guidelines to regulate mobile financial services. The NPS division within the RBZ oversees the operation of the mobile money products, particularly their compliance with the NPS Act (2011) (stakeholder interviews, 2015).

Issues of mobile money agent exclusivity. In February 2014, the RBZ waded into the dispute between an MNO and its agents and directed that no agent could be tied down to an exclusive agency arrangement without the RBZ’s approval (stakeholder interviews, 2015). RBZ subsequently issued a directive (National Payments System Directive, 01/2014, 2014) on the matter. Mandating the non-exclusivity of agents deepens the possibility of last-mile



interoperability between e-Money schemes, if not only at the merchant level. It changes the merchant business case beyond one e-Money scheme and increases the opportunities for digital transactions not requiring or ending in over-the-counter (OTC) encashment.

Lack of clarity on how overlaps and conflicts of regulators and players are addressed. There is currently a supporting regulatory framework gap between the RBZ, as the financial regulator, and the Postal and Telecommunications Regulatory Authority of Zimbabwe (POTRAZ), as the mobile network regulator. The Bankers Association of Zimbabwe (BAZ) has raised complaints that MNOs were competing unfairly against them in the provision of mobile financial services. One of such practices includes MNOs prioritising transactions on their own service offerings, which sometimes leads to delays in the settlement of transactions on bank service offerings. In light of this, RBZ and POTRAZ have entered into the interim measure of a memorandum of understanding (MOU) which tries to clarify the relationship between the two regulators (stakeholder interviews, 2015). The draft e-Money guidelines provide for the establishment of a subsidiary entity that will be exclusively licensed as an MMO under the RBZ for the regulation of all digital financial service transactions. The network and communications aspects is proposed to continue under the auspices of POTRAZ, subject to the MOU as detailed above, as well as the directives of the Competition and Tariff Commission (CTC) under the Competition Act (1998).

3.2.2.4. Insurance and pensions

Licensing, regulation and supervision of Insurance and pensions. Insurance and pension services providers are licenced, regulated and supervised by the Insurance and Pension Commission (IPEC) in accordance with the Insurance Act (2004) and the Pension and Provident Funds Act (2002) together with statutory Instruments. Insurance is classified into two groups: **non-life insurance**, and **life insurance**, with the latter being defined as “the business of assuming the obligations of an insurer under life policies, funeral policies or sinking fund policies”

State pension outside the ambit of IPEC regulation. The National Social Security Authority (NSSA) provides a pension offering that does not fall under the supervision of IPEC. NSSA provides state pensions under the NSSA Act (1989). The National Pension Scheme, established in terms of SI 393 of 1993, is compulsory for every working Zimbabwean above the age of 16 years and under the age of 65 years who is in permanent, seasonal, contractual or temporary employment. This does not include domestic workers and the informal sector, who are expected to join at a later stage. The claim of policy holders and contributors would also need to be considered in relation to the impact of dollarization and the potential liability of the state.

Minimum capital and prescribed assets requirements. Life and non-life Insurers are required to meet a minimum capital requirement of USD1.5 million. In July 2014, IPEC issued Circular 1 of 2014 aimed at tightening up capital requirements for non-life insurers. Under the circular, operating assets such as motor vehicles, furniture and fittings, and information technology hardware will no longer be accepted for calculating the capital if the company is a going concern. Pension funds, on the other hand, are required to meet a minimum prescribed asset ratio of 10%. The insurance regulatory environment is both challenged and invigorated by the presence of agent networks such as mobile money agents. Such networks allows for broader



distribution, but are challenged in some respects by informed consumer choices and overselling, as well as by counterfeit insurance by informal agents.

3.2.2.5. Medical Aid Schemes

No clearly enforceable regulation and reporting requirements. Medical Aid Schemes (MAS) are overseen by the Ministry of Child and Health Care under the Medical Services Act (1998). The act created a legal and enforceable environment to regulate the health sector as a whole. The Medical Services (Medical Aid Societies) regulations of 2000 and amendments (2004), sought to address the conduct, financial matters, amalgamation, transfers, dissolution and deregulation of MAS. The law provided for advisory councils to monitor and regulate MAS work, but did not clearly define how MAS should operate or address limits for investment of the industry's 'surplus' funds (Shamu, Loewenson, Machedmedze & Mabika, 2010).

3.2.2.6. Community level financial services

Licence and regulation of SACCOs. Saving and Credit Cooperatives (SACCOs) are registered and governed by the Cooperative Societies Act (2005) under the regulation of the Ministry of Small and Medium and Enterprises and Cooperatives. Given the nature of financial services and activities and the potential of increased prudential risk, mandating the RBZ to regulate prudential and operational risk aspects on behalf of the Ministry of Small and Medium and Enterprises and Cooperatives is a potential lower risk approach.

Licensing and regulation of MSMEs. MSMEs are registered and governed by the Small and Medium Enterprises Act (2011) under the regulation of the Ministry of Small and Medium and Enterprises and Cooperatives.



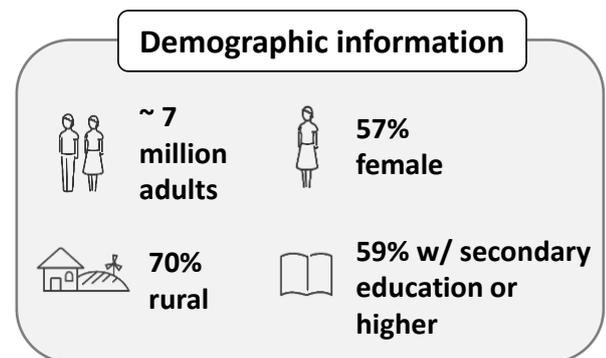
Part B. Understanding customer needs

The sections above showed that an understanding of the country context and policy and regulatory framework is necessary to evaluate the state of and potential for financial inclusion in Zimbabwe. Another essential pillar is to understand the features of the target market that shape financial behaviour.

This part unpacks the nature, needs and financial services usage of the target market for financial services in Zimbabwe based on quantitative information from the FinScope 2014 consumer survey, as well as qualitative insights from a series of focus group discussions and individual interviews conducted as input to this study. It starts off by segmenting the target market into distinct groups. Next, current usage of financial services in Zimbabwe is analysed at total population level, as well as more granularly across product markets and target market segments. This leads to an analysis of customer needs. Does the current usage picture address actual customer needs? What are the gaps and opportunities? This will provide the core framework for analysis in the rest of the document, where the supply-side landscape and product offerings are evaluated in terms of how adequately key needs are served.

4. Segmenting the target market

According to FinScope 2014, there are 7 million adults, defined as people over the age of 18, in Zimbabwe. 70% of adults reside in rural areas and 57% are female. Of the total population, 51% are below the age of 18 years. Almost every family has a family member working in South Africa or elsewhere abroad. Six of every ten adults have at least a secondary education. (FinScope, 2014)



But who are these people, what are their daily realities and how do they manage their financial lives? This question cannot be answered by considering all adults as a uniform group.

To appropriately address the needs of groups of people as dissimilar as salaried employees and farmers it is critical to understand the characteristics and usage patterns of different target market groups or segments. Such an understanding can then inform policies and interventions that effectively target the specific needs of each different segment of the population.

MAP classifies target market segments based on main individual income source as reported by FinScope (2014), but also taking into account geographic, demographic and other parameters. Main income source is used as a proxy for the level and regularity of income, both of which are key predictors of whether a person would be a viable financial service client. Income-earning activity is also strongly aligned with earning potential, lifestyle and financial service needs. The methodology identifies clusters of people who are sufficiently different from other groups and yet have enough shared characteristics to form a common target market for financial institutions and policymakers. FinScope 2014 survey data is used to profile each of the segments and assess their current interaction with financial services and potential needs.



Introducing the target markets. When grouping together adults with similar profiles from the more than 25 different income sources that FinScope 2014 respondents could indicate, the Zimbabwean adult population is segmented into distinct groups, illustrated in Figure 12.

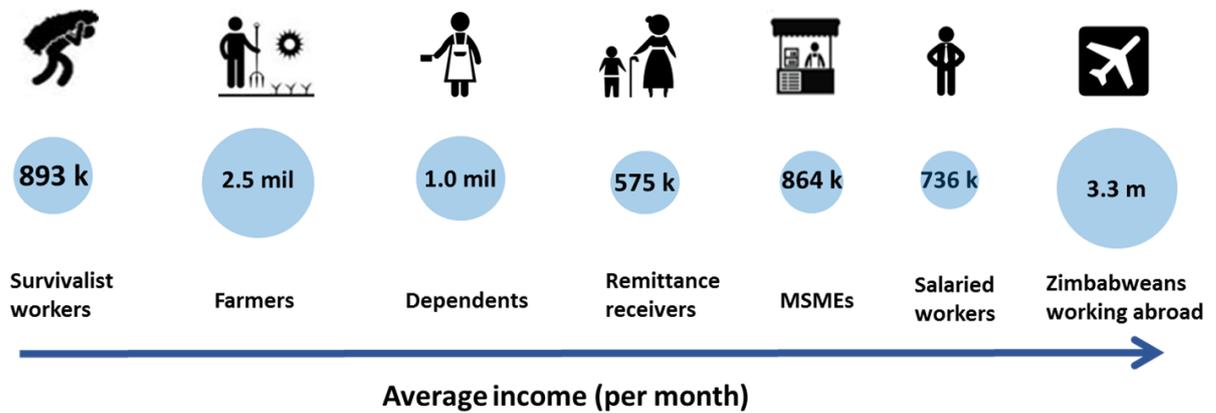


Figure 12: Size of target markets

Source: FinScope 2014

The bubbles denote the size of each segment, while the arrow indicates that average income rises along the spectrum, from survivalist workers, as lowest-earning segment, to salaried workers as highest earners²³. The segments can be defined as follows:

- **Survivalist workers** are adults who make a living on infrequent sources of income such as piece jobs and selling items that they manufacture. They are known as piece workers in other countries.
- **Farmers** are adults that indicated that they primarily rely on crops, livestock, fishing or other activities that source income from nature.
- **Dependents** are individuals that receive money from or have their expenses paid for by household members.
- **Remittance Receivers** are adults that depend on receiving remittances from family and friends domestically and internationally.
- **MSMEs** are adults that derive their main source of income from owning and running a business.
- **Salaried workers** are adults that earn a salary as either state or private employees.
- **Zimbabweans working abroad.** Though not included in the FinScope survey, it is nevertheless significant to note that those Zimbabweans who work outside of the country, many of whom send remittances home, will form part of the target audience for financial services in Zimbabwe.

“Others” not included. There are a small number of adults that obtain their primary income in a different manner than those specified above, including private and state pensioners, social welfare/grant recipients and adults that receive money from a business outside the country. Only 5% of the total population fall in this category and they do not form a cohesive segment

²³ Note: no actual income figures are available for Zimbabweans working abroad. However, as they emigrate in search of better opportunities, they are likely to be among the higher-earning segments.



based on common parameters required to define a target market for financial service provision purposes. Therefore, they have not been included as a separate target market.

Common to multi-task. It is important to note that the segments are based upon how the respondent identifies their main source of income, not by what consumes the time of the individual in question. For example given that 48% of dependents and 55% of remittance receivers indicate that they have another source of income, it stands to reason that many of them are nonetheless productively involved and contributing to household incomes. Likewise, the farmers segment is not the only group involved in agriculture. As will be discussed below, half of all adults are involved in some way in farming. Even among salaried workers, one in four have an additional income source.

Distinct profiles. Table 3 indicates a number of profile elements across the target markets, compared to the total adult population. Significant skews to note are shaded orange.

		Farmers	Dependents	Survivalist workers	MSME	Salaried Employees	Remittance receivers	Total Adults
Number and % of Adults		2,537,096 (36%)	1,035,874 (15%)	892,523 (13%)	864,152 (12%)	735,560 (11%)	575,099 (8%)	6,996,172 (100%)
% Female		50	84	51	65	40	70	57
% Rural		96	49	82	45	37	67	70
Avg. monthly income (USD)		\$76.75	\$110.21	\$69.07	\$199.36	\$368.29	\$108.02	\$133
Number of income sources	% with One	47	52	44	49	58	45	49
	% with More than one	53	48	56	51	42	55	51
Age Group (%)	18 to 24	10	40	15	10	7	21	16
	25 to 34	22	31	27	34	34	23	27
	35 to 44	23	16	26	23	33	10	22
	45 to 54	17	6	13	16	17	11	14
	55 to 64	15	3	9	10	6	13	11
	65 plus	13	3	9	7	2	22	10
Education (%)	Primary or Less	54	27	48	30	16	49	41
	Secondary	44	67	44	61	51	44	51
	Tertiary	2	6	8	10	34	7	8
% of adults with access to a mobile phone		88	94	83	95	99	88	90
% that is registered for mobile money		39	46	38	64	79	50	49

Table 3: Target Market demographics

Source: FinScope, 2014

A detailed profile overview of the demographics, key income realities and risk experience of each segment is provided in Appendix A, along with a real-life example of a person from that segment from the qualitative research. The following elements are of particular relevance to the key findings developed in the rest of this report:



- *Zimbabweans working abroad the biggest market.* It is important to note that the biggest target market, by some margin, is not inside the country and hence not captured in the table. Conservatively estimated at 3.3 million adults, these are adults generating an income abroad, an estimated 70% of them in South Africa (see section 2).
- *Small and shrinking top-end market.* Salaried workers are the highest-income earning segment. This makes them a prime target audience for financial service providers. However, they are also one of the smallest target markets (at around 736,000 adults) and, as discussed in section 2, the size of this target market is declining.
- *Most highly educated earn most.* As noted in section 2 educational attainment is high across the board. Even among survivalist workers, more than half have a secondary education or more. Nevertheless, incrementally more education does seem to make a difference to economic outcomes. The highest income earners, namely salaried workers, are also the most highly educated target market, with 34% having a tertiary education compared to a total adult population average of 8% (585 000 adults).
- *MSMEs mostly micro, survivalist.* According to the FinScope (2012) MSME survey, 85% of MSMEs are not registered or licensed and 72% do not have any employees, that is, are one-man businesses with a largely survivalist outlook. Only 3% have six or more employees.
- *Large group of smallholder farmers.* Farmers are the largest domestic market, at 2.5 million adults. However, they have very low monthly incomes, at an average of only USD77, and FinScope (2014) indicates that more than 99% of them are smallholder farmers.
- *Women less likely to have a regular job.* Women constitute the majority of Zimbabweans, at 57%. The cross-segment comparison shows that they are more likely to be included in the dependent and remittance receiver categories (84% and 70% respectively) whilst men are more likely to be included in the salaried, farmer and survivalist worker category. Women are also more likely than the national average to generate an income through entrepreneurial activity.
- *Mobile phone access generally high, driven by income.* 90% of Zimbabweans indicate that they have access to a mobile phone. The lowest mobile phone penetration rate is for survivalist workers (the lowest income earners) at 83%, whilst the highest is at 99% for salaried workers. A significant proportion of all target market segments are registered for mobile money, with very high penetration among MSMEs (64%) and salaried workers (79%).
- *Poorer target markets concentrated in rural areas.* Farmers, survivalist workers and remittance receivers are the most rural target markets with 96% (2.4 million adult), 82% (731 000 adults) and 67% (384 000 adults) of adults respectively. They also have the lowest average monthly income, with remittance receivers earning an average monthly income of USD108, farmers earning USD77 and survivalist workers earning the lowest income of USD69. In contrast, salaried workers and MSMEs are more urban. They are also the highest earning segments. Note, however, that as income is self-reported in FinScope (2014), it may be underestimated. Neither is income a full reflection of living standards,

as those who are involved in agriculture (farmers, but also a significant proportion across the other segments) augment their food consumption through farming.





5. Current uptake of financial services

This section considers current usage of financial services in Zimbabwe, both for the population at large, and for each of the target market segments.

5.1. Overall usage

This sub-section unpacks uptake of financial services at a total population level. The next two sub-sections will then break uptake down by product markets and target markets, respectively.

The FinScope survey outlines access indicators for the adult population based on the *access strand* tool (see Box 2 for further detail).

Box 2: The access strand explained

The Financial access strand is used to enable comparison of levels of financial inclusion across countries, market segments, or time periods. In calculating the access strand, a hierarchical approach is used in order to depict:

- **Banked:** The percentage of adults that have bank products. This is not necessarily exclusive usage – these adults could also be using financial products from other formal financial institutions or informal products.
- **Non-Bank Formal:** The percentage of adults that have access to financial products from non-bank formal financial institutions such as microfinance institutions (MFI), SACCOs or insurance companies, *but do not have a bank account*. These adults could also be using informal products.

*The banked and other formal segments together form the **formally included population**.*

- **Informal:** The percentage of adults that are not formally served, but use informal financial products or mechanisms. This is exclusive informal usage and does not include individuals who are within the banked or other formal categories of the access strand that also use informal services.

*The banked, other formal and informal segments together form the **financially included population**.*

- **Excluded:** The percentage of adults that do not use any financial products – formal or informal – to manage their financial lives.

The access strand does not show overlaps between the various categories (see Figure 13). Consequently, the “other formal” or “informal only” segments do not indicate total usage of non-bank formal or informal financial services, only those adults who have a non-bank financial service *but not a bank account*, or an informal financial service *but no formal financial service*. An individual with both a formal and an informal financial product would only appear under formal take-up.

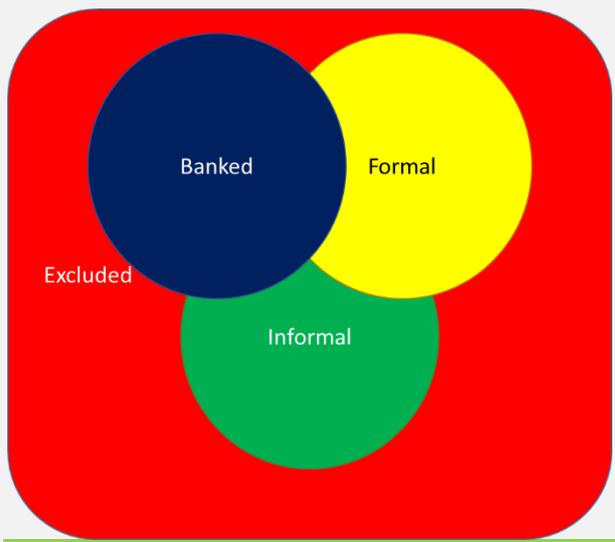


Figure 13: Access strand definition illustration

Source: Authors' own

The access strand applied to product markets. The access strand is furthermore used to illustrate take-up across particular product markets (i.e. credit, savings, insurance and payments). In addition to the categories of usage in the general access strand, the product market access strands also indicate those reached only by “unintermediated” financial services. These are financial services extended between family and friends, without being intermediated through a third party institution or collective grouping. Thus, for example, saving at home, borrowing from friends and family or sending a remittance with another person would be regarded as being served in the “family and friends only” category.

Majority formally included – a significant improvement since 2014. At first glance, financial usage has improved markedly in Zimbabwe in recent years and is more formal than informal. Figure 14 shows the access strand for Zimbabwe in 2014 as well as 2011²⁴.

²⁴ The access strands displayed here differ slightly from those published in the FinScope brochure. Whilst the methodology explained in Box 2 is the same as the FinMark brochure, the questions included in the MAP diagnostic study differ slightly, particularly around informal and self-finance. The definitions followed here are slightly broader and aim to make a more meaningful discussion of the financial activities of Zimbabweans possible.

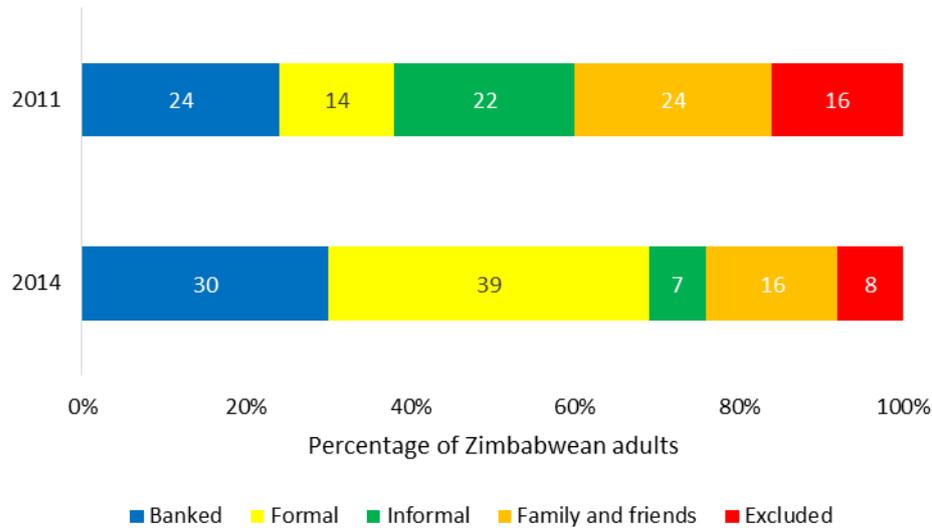


Figure 14: Total access strand for Zimbabwe

Source: FinScope, 2011; FinScope, 2014

As shown above, in 2014, 30% of Zimbabwean adults were banked. A further 39% had some non-bank formal product (including mobile money and insurance). Hence almost 70% of Zimbabweans were classified as formally included, up from 38% in 2011. 7% were only served informally and a further 16% turned only to family and friends for their financial service needs. Only 8% were classified as totally financially excluded, compared to 16% excluded in 2011.

The overall usage discussion above is positive: the percentage of adults with a bank account is relatively high and growing. However, a deeper analysis suggests that this is not a true reflection of usage patterns.

Significant usage masked by overlaps. The access strand masks significant overlap between different aspects of the strand, as it follows a hierarchical approach whereby only those with non-bank formal services but no bank account are included in “formal”, and the same for informal and family and friends (see the explanation in the box above). The diagram below shows *total uptake* of each of the categories. This indicates that total non-bank formal uptake is much higher than exclusive non-bank formal uptake as indicated in the access strand. Likewise, total informal service uptake, at 25% of adults, is much higher than the 7% exclusive informal uptake indicated in the access strand. The difference is even starker for accessing financial services from family and friends. In total, almost three quarters of adults turn to family and friends, compared to the 16% indicated on the access strand who *only* have financial services from family and friends.

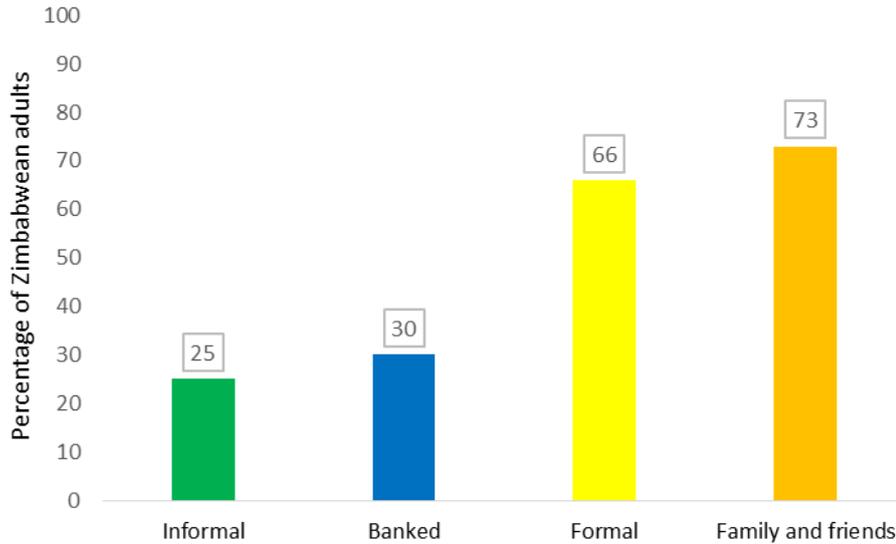


Figure 15: Total take-up for each of the access strand categories

Source: FinScope, 2014

Very limited exclusive bank usage. Reversing the access strand to start with those that are excluded on the left, progressing to those that are *only banked* on the right, provides an interesting perspective. Figure 16 compares the conventional to the reverse access strand for Zimbabwe.

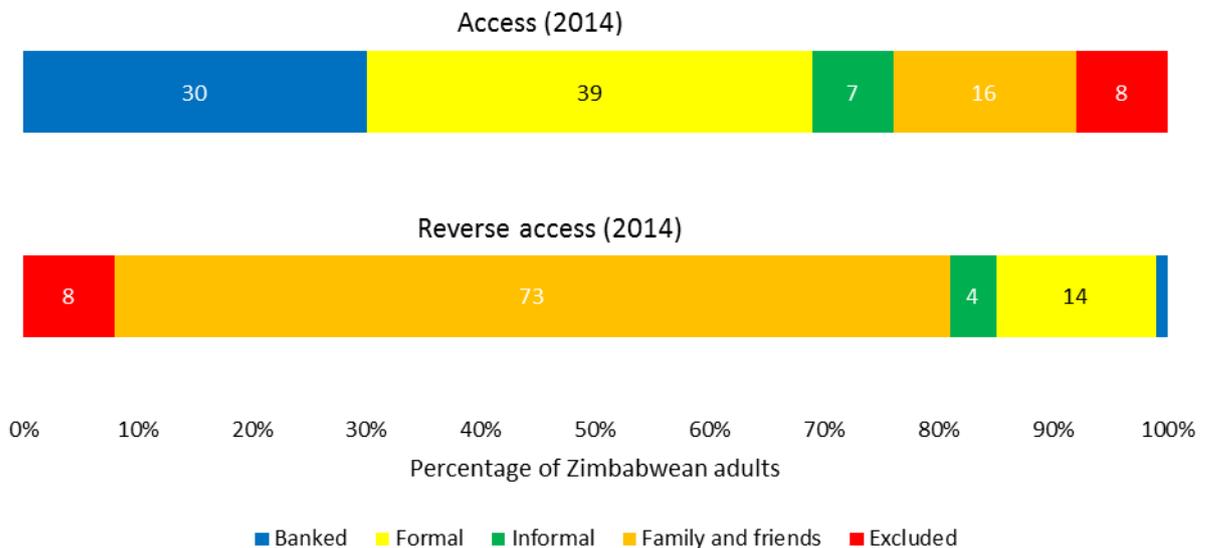


Figure 16: Reverse access strand

Source: FinScope, 2014

The reverse access strand pictured above reads as follows:

- 8% of adults are financially excluded;
- 73% of adults have some kind of financial service provided by a family member or friend;
- 4% of adults do not have any service from family or friends, but do have a financial service



- from an informal provider (such as a money lender or savings group);
- 14% of adults have no informal product or family and friend-provided service, but use some kind of non-bank formal financial service such as mobile money; and
- Only 1% of adults have none of the above, but are banked.

Stronger role for informal, family and friends. Thus, though 30% of adults do have a bank account, very few of them are *exclusively* banked. And though almost 40% of adults are formally served, a much lower percentage (15%) are *exclusively* formally served. Reversing the access strand in this way paints a different picture than the conventional access strand: one where family and friends are the first port of call for many and informal and unintermediated services are taken up *in parallel* to formal services by most of the formally served and banked.

Actual bank account usage low and declining. Moreover, the apparent increase in banked penetration between 2011 and 2014 may be misleading, as the same period also witnessed an increase in dormancy and a decrease in actual usage of bank accounts. Figure 17, which draws on the global Findex survey for 2011 and 2014, show transaction behaviour among those that are banked for deposits and withdrawals, respectively.

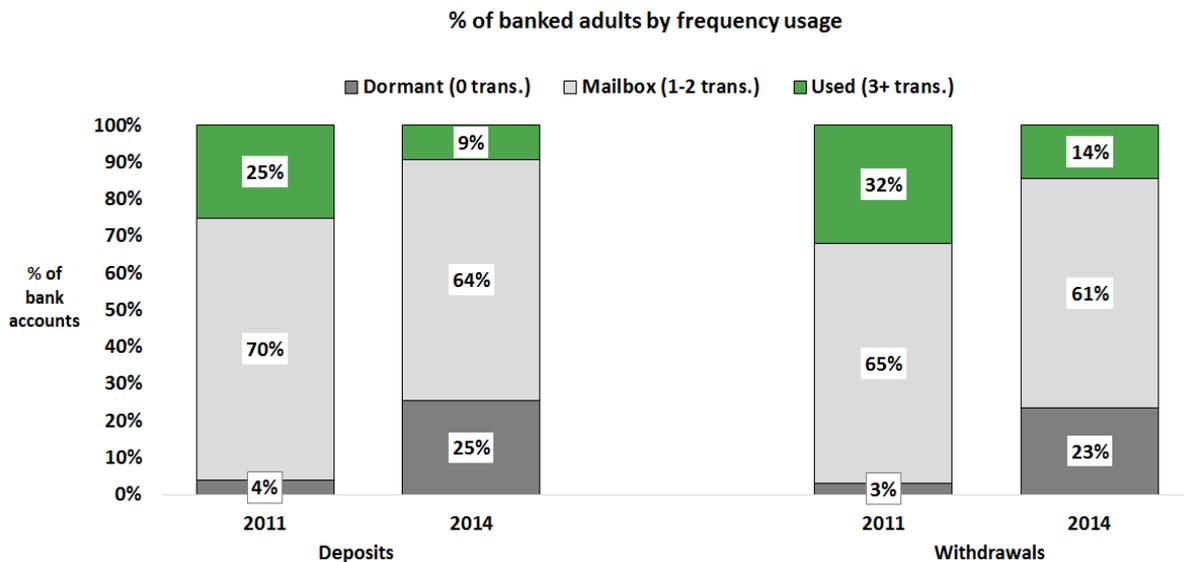


Figure 17: Illustration of deposit and withdrawal usage over time

Source: Findex, 2011; Findex, 2014

The diagrams indicate that, in 2011, bank account dormancy (defined as zero transactions per month over the past several months) was 4% for deposits and 3% for withdrawals. By 2014, this had risen to 25% for deposits and 23% for withdrawals. A further 64% (for deposits) and 61% (for withdrawals) only used their bank accounts as a “mailbox”, that is, they made only one or two transactions per month. Those who are actively using their bank accounts decreased significantly. Thus, even though the banked population has grown, actual usage is low and declining.

5.2. A product market view

The access strand shows whether a person has a financial service, but does not indicate whether a person has more than one type of product. Thus it aggregates usage across



different product markets and it does not give a granular understanding of people's interaction with different types of financial services. This section discusses cross-product market usage and outlines the access strand for each of the four product markets analysed in MAP: payments, savings, credit and insurance.

A cross-product market view. MAP distinguishes between “breadth” and “depth” of usage in order to investigate the extent to which people have a portfolio of financial products across different product markets.

- **Breadth of usage**²⁵ refers to the number of adults in a country who use at least one financial product class,²⁶ expressed as a percentage of the total adult population. The access strand discussion above provides an indication of breadth.
- **Depth of usage** refers to the number of different product classes used by those adults who have at least one financial product class. As with breadth, depth is initially expressed in relation to formal products, before showing how informal product usage affects depth.

Limited depth. Figure 18 indicates the number of different product types (credit, savings, payments or insurance) that financially included Zimbabweans have on average. It constructs a strand to show the percentage of people excluded on the left, followed by the percentage served only in one product market, then the percentage served across two, then three markets. The percentage served across all four the product markets is to the far right. The first strand indicates the number of products, formal or informal, that people have, whilst the second strand indicates only the number of formal products. Note that financial services from family and friends are excluded from the analysis in both cases.

²⁵ *Usage* refers to the act of employing or making use of a financial product or product class. This is what is measured by the FinScope Consumer Survey. This is in contrast to *access*, which refers to the availability to a given person of affordable and appropriate financial services.

²⁶ Financial product *classes* refers to the four types of financial products: savings, electronic payments, credit and insurance. Financial *products* refers to the individual products – such as two different savings accounts.

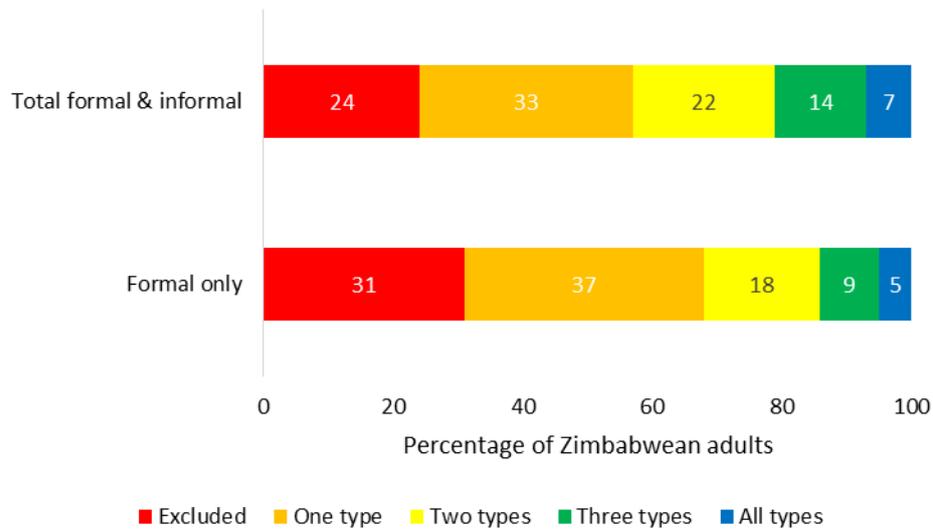


Figure 18: Depth of access: % of adults with various number of product types

Source: FinScope, 2014

In each case, the majority of adults have no more than one financial service and very few have three or four different types of products. When informal financial services are included, a smaller proportion of Zimbabwean adults are excluded (24% compared to 31%) and a larger number have two product types or more (68% compared to 57% if only formal products are considered). Thus informal financial services increase depth of access (defined as more people having a wider suite of products).

Uptake per product market. The diagram below depicts the access strand for each of the product markets in the MAP analysis, compared to the total access strand²⁷. A more in-depth analysis of usage trends in each product market will be discussed in each of the product market chapters.

²⁷ Note that family and friends is not included as a category for all the product markets, as it is not relevant for example payments or insurance. Likewise, “banked” is not a relevant category for insurance.

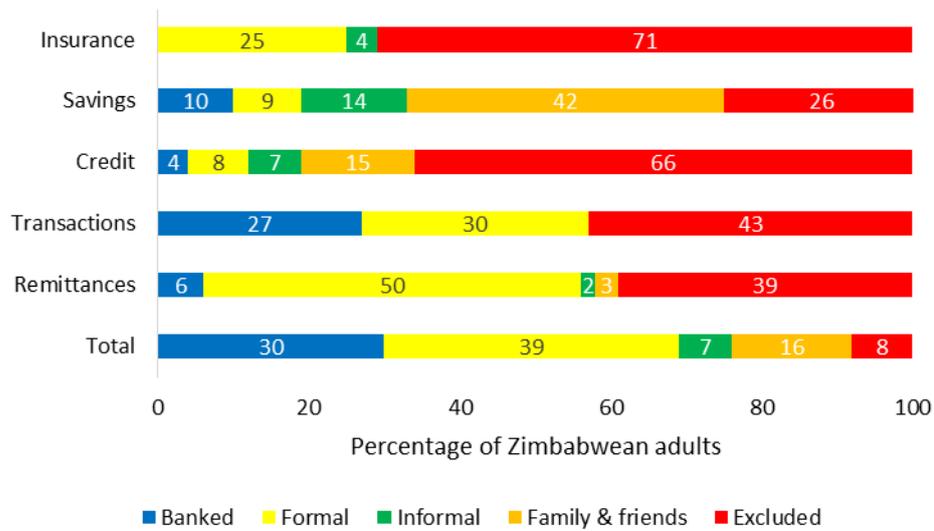


Figure 19: Product market strands

Source: FinScope, 2014

The discussion that follows will provide a breakdown of key product markets storylines (see Figure 19 above):

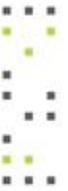
Most adults not insured. One in every four adults have formal insurance and a further 4% have informal insurance only, such as belonging to a burial society. The bulk, however, have no form of insurance. The credit and savings markets are even less served, formally.

Most people save, but then mostly in unintermediated ways. Despite low incomes on average, three out of every four Zimbabwean adults indicate that they do save. In the savings strand the “friends and family” category includes savings strategies like saving in livestock or saving at home. Such unintermediated savings account for the bulk of savings behaviour in Zimbabwe. Only 10% of adults use a bank account to save and a further 9% other formal products (such as mobile money). 13% of adults save in informal savings mechanisms such as rotating or accumulating savings clubs without being formally served.

Two in every three Zimbabweans do not borrow. The credit market is the most financially excluded of all the product markets. In addition to the 66% of adults who are excluded, a further 15% borrow only from family and friends. While the low levels of formal credit may be expected, it is noteworthy that only 7% of Zimbabwean adults borrow only from informal service providers such as money lenders.

Payments the most formally served. In the transaction and remittance strands (which together comprise the payment market), in contrast, uptake is mostly formal. Notable is the large share of non-bank formal providers versus banks in formal usage. This is due to the increasingly important role of mobile money in Zimbabwe, as will be discussed in section 9.3.

Transactions the main use for bank accounts. The banked proportion of the transaction strand, at 27% of adults, is close to the full banked strand, at 30%. For the other product markets, bank penetration is limited. Thus most bank clients use the bank only for transaction purposes.



5.3. A target market view

The next lens to unpacking usage is to consider uptake across target market segments.

Access increasing with increasing incomes. Figure 20 below compares the access strand for the various segments. Salaried workers are the most included target market with only 1% not using any financial services. Survivalist workers, the poorest target market, have the lowest level of access with 13% not using any financial services. Remittance receivers have a similar inclusion rate to MSMEs but have a greater reliance on informal financial products. Farmers have the second lowest rate of inclusion after survivalist workers.

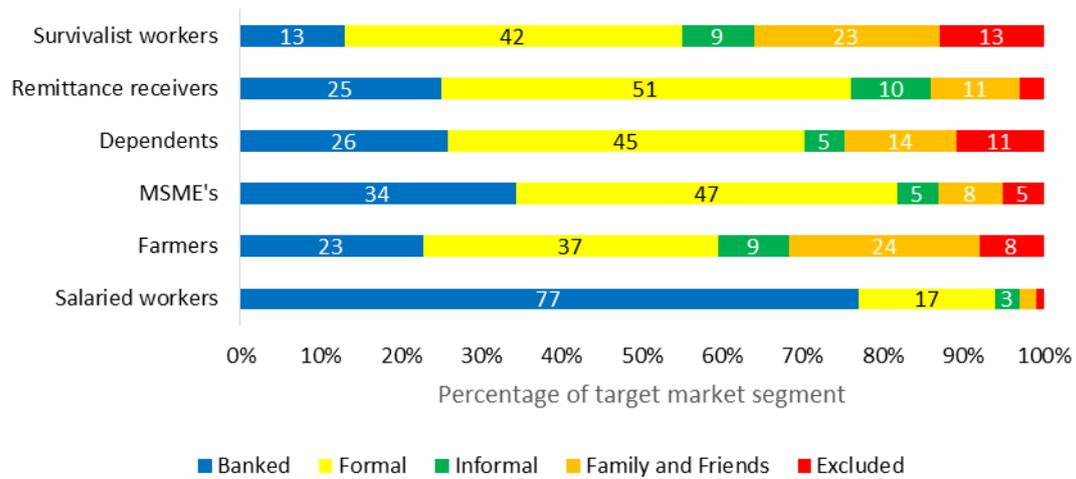


Figure 20: Access by target market

Source: FinScope, 2014

Appendix B analyses usage patterns across product markets for each of the segments, individually. It identifies the following usage profile for each segment:

- Survivalist workers:** The least served market segment, their formal usage is driven by non-bank formal products, largely mobile money. Formal usage of savings, insurance and especially credit is very low. Instead, they turn to others in the community: 18% borrow from family and friends. Savings are also mainly in informal institutions such as Mukando²⁸ or at home.
- Farmers:** 32% of farmers are totally financially excluded, when not considering family and friends as a source of financial services, making farmers the second most excluded segment. Apart from payments, where 46% are formally served, usage is largely informal in each of the other product markets. They save largely in Mukando (savings rounds) or at home. 26% (862 000) of farmers rely on credit from informal providers and family and friends, compared to only 1% that have credit from a bank. Most farmers do not have any insurance – be it formal or informal. A significant proportion (14%) of farmers use informal products despite having a formal or banking product. Farmers are the segment most likely to have only one type of product. Only 19% have two types of formal products and a mere

²⁸ Mukando is a Shona work for a community savings round.



1% have all four types of formal products.

- **Dependents:** As can be expected given the fact that they receive their income from others, formal non-bank remittance products are the largest contributor to access for dependents at take-up of 57%. Beyond family and friends, take-up of savings and credit is limited. A fairly large proportion (30%) have some form of insurance. There is limited overlap in uptake across product markets, with only 34% being formally served across two or more product markets.
- **Remittance receivers:** As can be expected, remittances are the largest contributor to total access for remittance receivers. 9% turn to banks for remittance services and a further 56% make use of non-bank formal services. Only 20% do not use any remittance mechanisms. Remittance receivers have much lower access to the other product markets. Accordingly, depth of access is low: only 31% are formally served across more than one product market, rising to 44% if informal services are also taken into account.
- **MSMEs:** MSMEs have the second lowest level of financial exclusion (at only 5% when taking into account family and friends) after salaried workers. They also have relatively high depth of access compared to most other segments. 42% are formally included across two or more product markets. Almost two out of every three MSMEs do not have any credit. 16% of MSMEs borrow from family and friends and 9% obtain credit from informal money lenders such as Chimbadzo²⁹. Only 3% of MSMEs receive credit from banks and a further 8% receive credit from non-bank formal institutions. MSMEs earning a higher income are better served by formal financial services with only 3% (4 061) of those earning more than USD300 per month not using any financial services. However, access to formal credit is limited even for wealthier MSMEs with only 18% (24 368) of those earning more than USD300 a month borrowing from banks.
- **Salaried workers:** Salaried workers have the highest inclusion rate with only 1% not having access to any financial services. Salaried workers also have the highest depth of access, with 78% being served across more than one formal product market. The high level of access is largely driven by payments products. 83% of salaried workers make use of formal remittance channels: 8% transact remittances through a bank and 75% use formal non-bank channels such as mobile money. They are also by far the best-insured target market at 69% formal penetration. Furthermore, their superior financial position means that salaried workers have the highest usage of savings products, predominantly through banks and, even more so, non-bank institutions. Thus, it would seem that salaried workers use their bank accounts to receive their salaries, but prefer to keep their money saved elsewhere, as illustrated by the following quote:

²⁹ Chimbadzo is a Shona word for an informal moneylender.



Interviewer: What is your attitude towards banks?

Respondent: I lost trust with banks as they were also affected by this inflation in this country. I have no choice but to have an account. That is the only alternative for me to get my salary. Bank charges are much too high.

Government worker, female, 39 years old

6. Is usage meeting customer needs?

The discussion above looked at current usage of financial services through different lenses: at total population level, by product market and by target market. But to what extent does usage align with actual consumer needs?

Clients do not think in terms of specific products; rather, they experience needs which they then seek to meet through available services. Thus, they do not think in neat product silos of credit, payments, savings or insurance, but may use multiple products to meet a single need. These needs can include to transact, to smooth their consumption over time, to grow their assets or businesses or to mitigate risk. What are Zimbabweans' main financial services needs and how are these needs served by various types of financial services and institutions? How could financial services better respond to needs? Answering these questions is at the core of what MAP tries to achieve, as any financial inclusion intervention that does not address what consumers truly need, within their realities and given their profiles, will be set to fail.

This section will explain what a “need case” is and give an overview of the main need cases identified in the demand-side research. It then considers which different types of financial services are being leveraged by Zimbabweans to meet the various needs, and which providers are vying to meet these needs.

Key findings: need cases

- A need case is a discrete consumer need that can be satisfied by a financial service or services. In order for the need to be meaningful, it must be separable and distinct from other needs experienced by the consumer. FinScope survey findings are used to map the presence and extent of a number of need cases identified in Zimbabwe.
- The payment-related need cases (bill payments; encashment; remote domestic transfer of value) are the strongest across all target markets, followed by the need for consumption smoothing and then risk mitigation. Funding education, encashment, asset accumulation and procuring farming or business inputs are also expressed need cases.
- People use various instruments to meet their needs. Formal financial services play an important role for the payment need cases, where mobile money is now the dominant instrument in which the need for **remote domestic transfer of value** is served. However, almost all local payments are still done in cash. This highlights the **importance of the cash economy and the link between the local payment and encashment need cases**. Remittances and salary payments both give rise to **encashment** needs. Whereas banks cater for the latter, the former is now served largely via mobile money. **Bill payments** channels are mostly used for airtime purchases.
- More than half of adults in Zimbabwe use financial services for **consumption smoothing**. Many



of them use payments to do so, but a significant proportion also use credit or savings – or some combination of the three. This shows that one need case is often met across different product markets.

- People also use different instruments to meet one need case: they tend to save at home or use informal credit to smooth consumption, whereas in the case of payments as a consumption smoothing tool, more people use formal remittances.
- Illness, agriculture-related risks and death are the most front-of-mind **risk mitigation** needs for Zimbabweans. Insurance and proactive savings are ex ante ways for risk mitigation, but insurance is only substantively used by the more affluent target markets. Credit, reactionary saving and remittances are used “after the event” for risk mitigation, with pre-emptive savings being the most used instrument by far. Such saving is largely done at home or via family and friends, while moneylenders are the main port of call for such credit.
- Credit and savings are of approximately equal importance to meet the need of **funding education** – a very prominent need expressed in the qualitative demand-side research. Where people receive remittances to pay for education expenses, these tend to be formal services, but where they use credit and savings, it’s more likely to be informal.
- Credit and savings are used more or less equally to acquire and **build assets**. However, there is limited asset building through formal credit.
- Farmers have an expressed need for **working capital** for agricultural production. Interestingly, they are six times more likely to meet this need via payments (largely received through government and NGO subsidies) than via credit. About one in ten farmers also save to buy working capital.
- MSMEs’ need to **invest in their business** is also largely met outside of the formal credit market.

6.1. What is a need case?

The need case analysis is a quantified analysis of the demand for financial services by the population, indicating potential market size. The total demand is cut into discrete segments, each being for a discrete client need which can be met by one or more financial services.

Different client needs result in different incentives and different behaviour when it comes to using financial services. For example, if a household has insufficient income to buy food to stay alive, they will have different incentives to take up credit from a household having sufficient income for food, but wanting to buy a car.

The FinScope surveys enable a statistical analysis of how many adults exhibit each need, and which services they currently use to satisfy that need. If a particular need is not realised, it indicates that providers do not recognise the true scope of competition in a particular sub-sector and how limited a particular market can be. Defining discrete need cases and ranking them across the adult population therefore provides a deep understanding of why some business models fail and others succeed, as well as a glimpse into what changes will be needed for categories of providers to succeed and prosper. At the same time, the analysis can highlight gaps in current provision and infrastructure, areas of major consumer protection concern and even regulatory gaps. It also shows opportunities for redesigning products, for example by bundling products that meet a particular need case.



A need case is defined as a **discrete consumer need that can be satisfied by a formal financial service or services**. In order for the need to be meaningful, it must be separable and distinct from other needs experienced by the consumer, i.e. the consumer is driven by a specific set of incentives which differ from any other need case. It is also important to note that, although the need case must be susceptible to formal provision, it can be met through informal services, which is also often the case.

The above definition suggests a large universe of potential need cases. These can differ from country to country. To quantify the need cases in Zimbabwe and allow for meaningful discussion, only those needs that are exhibited by a sufficient number of people based on the FinScope survey are discussed³⁰.

6.2. Main need cases in Zimbabwe

The following need cases are identified in Zimbabwe:

- **Local payments:** Payments where the physical presence of the payer and payee at the same location is required. For example, buying a loaf of bread over the counter.
- **Bill payments:** A requited transfer of value, where the payer and payee are not physically present at the same place at the same time. For example, paying your electricity account at the local post office.
- **Remote domestic transfer of value (RDTV):** The unrequited transfer of value where the physical presence of the payer and payee is not required for the transaction and the jurisdiction of the payer and payee is the same. For example, a parent sends money to their child at university via mobile money.
- **Remote cross border transfer of value (RCTV):** The unrequited transfer of value where the physical presence of the payer and payee is not required for the transaction and the jurisdiction of the payer and payee is not the same. For example, a migrant worker in Zimbabwe sends money to a family member in South Africa via a money transfer operator or a cross-border bus driver. According to FinScope (2014), this type of transfer is not found to a significant extent in practice in Zimbabwe, and is therefore not explored further.
- **Consumption smoothing:** When an individual meets regular and foreseeable expenses from financial resources other than from regular income. This could be used to meet a shortfall in current regular expenses, or to provide for future regular expenses. For example, a person saves throughout the year for their year-end Christmas expenses.
- **Education provision:** Engagement with financial services in order to provide for current or future educational expenses. This is a specific sub-category of consumption smoothing. For example, saving up to pay school fees and buy uniforms at the start of the school year.
- **Risk mitigation:** The need to provide for expenses or losses arising from uncertain events other than from current income. For example, keeping money under the mattress, buying a funeral insurance policy or belonging to a burial society for the event that you need to incur funeral expenses.

³⁰ If an insufficient number of respondents illustrated a need case, or the questionnaire did not allow for an accurate construction of the need case, then the underlying data points would not suffice for a statistically sound analysis. For the purposes of the current section, a data point is defined as a question, or series of questions, that are available in the FinScope Consumer Survey for analysis.



- **Encashment:** The need to convert electronic/digital value into cash or the other way around. For example, an ATM withdrawal or cashing out mobile money at an agent. Also relevant here would be cross-border remittance receivers cashing out the remittance received.
- **Asset accumulation:** The accumulation of assets, either physical or monetary or both. For example, taking out a loan or saving up and then buying a fridge or a car.
- **Farming inputs:** The need for working capital for agricultural production. For example, keeping some bags of maize aside after the harvest to fund the purchase of fertilizer for the next season.

To illustrate the need cases, we discuss the case of Junik in Box 3 below:

Box 3: Overview of need cases – the case of Junik



Junik is a 49-year old poultry farmer in Harare, where she resides with her husband and youngest daughter. She rears chickens, ducks, cattle as well as pigs. Additionally, she grows some vegetables for her consumption and hires out a lorry to farmers as a means of making additional income. She earns USD1730 per month from managing her own business and USD1600 from renting out the lorry. The majority of her regular expenses are paid

for in cash (local payments). Junik also provides support to her parents and uses EcoCash³¹ as a means of transferring the necessary money (RDTV). Her sister sends her a remittance amount of USD200 through Western Union money transfer to help care for their mother's upkeep (RDTV; encashment). Junik makes use of the bank to save formally and a money-rounds club as her informal savings mechanism (consumption smoothing; asset accumulation; risk mitigation). She also owns land and some livestock. (Qualitative study, 2015).

Need cases served across multiple product markets. Figure 21 below shows the prominence of the various need cases in Zimbabwe. The Y-axis represents the percentage of Zimbabweans expressing a particular need case by using a particular type of financial services, whilst the X axis represents the needs cases, ranked from least prominent to most prominent, based on number of instances of use identified for that need case. Within this analysis, there are four ways in which Zimbabweans might satisfy any of the particular need cases: through payments, savings, credit or insurance. Some need cases can only be satisfied by one product, such as the bill and local payments need case where only payment products are used. In other cases, such as risk mitigation, various products are used to meet this need, such as savings or credit. In some instances, a particular Zimbabwean adult makes use of more than one type of product and is then counted in the “two or more” category, regardless of which two products he or she uses. This analysis illustrates that Zimbabweans face a multitude of needs, whilst simultaneously highlighting that these needs can be satisfied by different types of products.

³¹ EcoCash is the name of the mobile money offering provided under the auspices of Econet wireless. From here on out the term EcoCash will be used to refer to both the mobile money offering and the provider of this offering. This is done for the simplicity of referring to the mobile money operator (MMO) portion of the Econet wireless business. See section 8.2.2 for further detail.



Prominence of payments. It is clear from the diagram that payment-specific need cases are the most prevalent and that payments play a prominent role in most of the need cases.

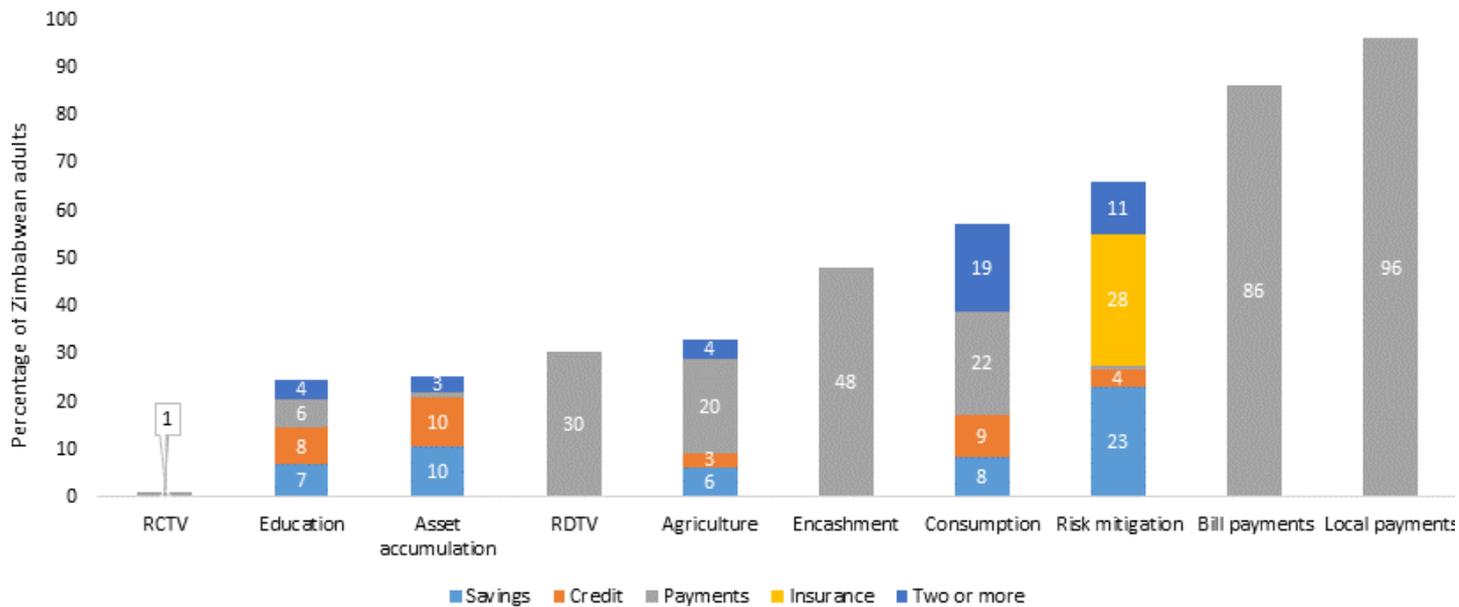


Figure 21: Need cases in Zimbabwe

Source: FinScope (2014)

Below, each need case is discussed in more detail. Section 9 will show how these need cases are currently served (or not) by various financial services.

Box 4: Note on methodology: the needs channel strand

Throughout the need case section, a similar graphic to the access strand is used, called a needs channel strand. It is built on many of the same concepts as the access strand and comprises four different categories. These are:

- **Bank:** Represents use of financial products that are provided by a bank to meet the specific need case
- **Formal:** Represents use of financial products that are provided by non-bank formal providers to cater to the particular need case.
- **Informal:** Represents use of products that are provided by unregulated providers for the need case.
- **Family, friends and self:** Represent use of products that are provided by friends or family members to meet the need case in question. This category also caters to self-provision of financial services (such as saving at home)

The important difference between the access strand and the needs strand is the nature of the underlying data. The access strand represents the universe of adults in the country, with usage in each category expressed as “percentage of adults who are banked”, for example, and follows a hierarchical approach whereby the non-bank formal component only refers to those who do not also have a bank account, and the informal component only to those who do not also have any formal product, etc. The needs channel strand shows the universe of *ways in which a particular need case is met* and expresses usage of a particular channel as a percentage of total instances of usage for that



need. Some adults may use more than one channel, so will be counted more than once. No allowance is made to remove duplication between adults. This is done to allow the total universe of usage for each channel type to be indicated.

6.2.1. Payments need cases

Payments needs cases overview. The payments need cases loosely relate to each other in that they all involve the transfer of value from one entity to another. Yet there are also important differences along two lines:

- Whether or not the payer and payee are usually in each other's physical presence; and
- Whether or not the transaction is required or unrequired, that is, whether the payer expects something in return or not.

Using these two terms, four distinct payments cases can be defined. These are the local payments, bill payments, RDTV and RCTV payments cases.³² The first three are discussed below, whilst the fourth did not have sufficient data in FinScope to support a meaningful discussion³³.

6.2.1.1. Local payments

Rosemary is a 51 year old bookshop owner in Harare. Previously, she worked for Mambo Press, where she was able to gain valuable experience and insight, which not only allowed her to progress from a secretary to the branch manager but also inspired her to want her own bookstore. In 2013, Rosemary decided to pursue her dream of starting her own bookstore. Instead of using credit facilities, she decided to sell her two cars and a vacant plot in Bluff Hill. She then used the proceeds from these transactions as capital for her business.

Rosemary receives payments largely through cash purchases at her shop, plus occasionally receives bank transfers for large orders. She has a range of monthly expenses, from fuel and rent, to a funeral plan, airtime purchases, church donations, school fees for her grandchild, water and electricity and groceries. She makes all of these payments in cash, despite having three bank accounts. She does, however, use bank transfers for her two largest monthly expenses, namely to pay the rent on her office space (USD2 200), plus for restocking to the order of USD1 200. (Qualitative study, 2015).

Local payments are where the physical presence of the payer and payee at the same location is required. Nearly all adults in Zimbabwe (94% of adults) responded that they make local payments³⁴. The most frequent payments are for groceries, running one's dwelling (including water, electricity, rent, etc.), transport or travelling. Local payments for groceries are typically

³² Introductory points in section 6.1 above

³³ The lack of data is due to the fact that remittance outflows from Zimbabwe are not significantly large. Typically, remittances enter the country and are circulated within it.

³⁴ The analysis for this use case includes all local payments included in the FinScope questionnaires. This options include expenditures for running your dwelling, expenses for transport, food and other groceries, clothes, education and school fees, expenses for agriculture/farming, and expenses for your business.



made on a weekly basis, whereas payments for running the dwelling are monthly and payments for school fees are paid either a few times a year or once a year³⁵. Agricultural inputs are also bought on this cycle; hardly anybody buys them monthly or weekly.

Almost all done in cash. Local payments can happen electronically, for example where a person makes a mobile money transfer in the presence of the recipient, or by card at merchants. However, as is discussed in the Market for payments chapter, the bulk of local payments are made in cash. FinScope (2014) queried Zimbabweans on how they typically purchase day-to-day items such as clothing and food. Almost all the respondents indicated that they do this via cash (96%). This illustrates the dominance of the cash economy in Zimbabwe. Importantly, it highlights the interplay between the payment and encashment need cases and the need for supporting encashment infrastructure. This is unpacked below in the description of the Encashment need case.

6.2.1.2. Bill payments

Mr Ganyani is a 56 year old trader from Bulawayo. He has a stand in front of the Agricultural Board, where he sells his seedlings to farmers who visit the agricultural offices. He is able to make a net profit of approximately USD150 per month. Mr Ganyani makes use of Eco-cash to pay his monthly electricity bill. He states that he prefers using Eco-cash as he deals with small amounts of money. (Qualitative study, 2015).

Bill payments are a requited transfer of value where the payer and payee are not physically present in the same location at the same time. The unrequited counterpart to bill payments – remote domestic transfer of value – will be discussed in the next sub-section.

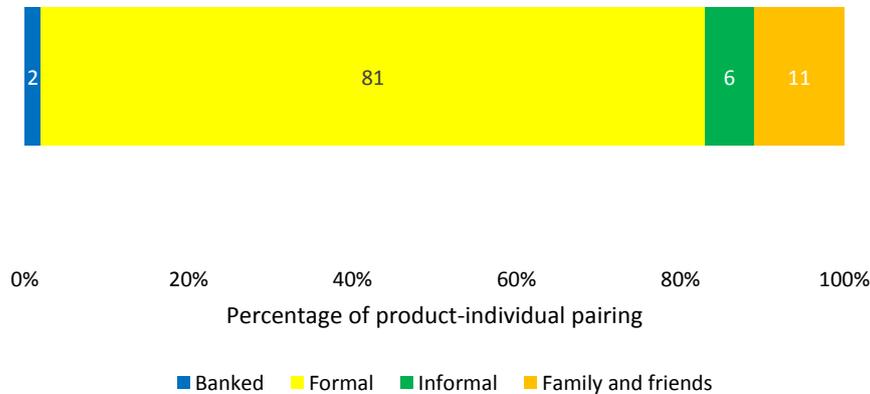
Due to the nature of the FinScope questionnaire, however, it is not possible to highlight the different types of products that compete with each other within this need case. This is due to the fact that the bill payments need is only triggered when a person engages in a bill payment and FinScope (2014) does not enquire as to how adults made the payment, only whether or not they did.

Mostly airtime payments. The bill payments analysis includes airtime and telephone bills, loan repayments and insurance payments. It is the second largest need case, with 84% of the adult population reporting to make bill payments. The largest and most frequent bill payment is airtime and telephone bills, with 80% of adults in Zimbabwe making these payments. Most bill payments for airtime and the telephone are made weekly (43%) with 27% of adults making them monthly.

6.2.1.3. Remote Domestic Transfer of Value (RDTV)

Wendy is a 34 year old entrepreneur who runs a cross border trading business in Harare. The nature of her business requires that she travels frequently to Botswana, South Africa, Namibia, Tanzania and Zambia. Wendy has one daughter aged six who lives in the rural

³⁵ Payment of school fees is discussed both here and in the education need case below. The definitions are however slightly different. The need to *engage* in a payment specifically for education is discussed here, whilst the need to *make provision* for the payment of education is discussed below. An intuitive example: An individual saves in order to make a payment for their school fees. Their need is counted once in the need case discussion on education below, as they are making provision for it and once again here because they illustrate a need to pay for it.



areas with Wendy’s mother. Although she does not visit her mother and daughter often, she manages to send groceries and USD100 to USD150 dollars every month and also pays her daughter’s school fees which are USD30 every 3 months. Though she has a bank account, she uses EcoCash to send the money. (Qualitative study, 2015).

RDTV is the unrequited transfer of value where the physical presence of the payer and payee is not required for the transaction and the jurisdiction of the payer and payee is the same – that is, domestic person to person transfers.

Mostly served by non-bank formal providers. The figure below depicts the various channels used for RDTV in Zimbabwe. Formal products such as mobile money, Western Union and Mukuru are the principle mechanisms whereby Zimbabweans transfer value over distance within the country. Informal and family and friends mechanisms play a small, but still significant, role collectively, whilst banks play almost no role in this space.

Figure 22: RDTV strand

Source: FinScope, 2014

6.2.2. Consumption smoothing

Susan is a 32 year old piece worker from Kuwadzana. She works as a bar attendant and earns USD175 per month. Her husband does piece jobs as a plumber, but his income is irregular. To supplement their income, she sells airtime and profits USD20 per month. When she struggles to make ends meet, Susan is reluctant to draw on her savings to smooth consumption. Therefore, despite the fact that she has savings of about USD300 at home, she recently took a USD30 loan from her employer to purchase groceries to see her through to the end of the month. She used some of the money intended for groceries to top-up the school fees payments she makes for her daughter.

Consumption smoothing is defined as the need to meet regular expenses from a source of revenue other than income. People do not always have the money at their disposal to pay for



expenses when they need to. Rather than delaying consumption, they use a financial service to make up the difference, either by planning ahead (saving as a means of consumption smoothing) or by taking out a loan. Thus financial services act as a smoothing mechanism.

A big need. In Zimbabwe, consumption smoothing is the second-largest need case after the various needs to conduct payments (note that payments are also a *tool* used to conduct consumption smoothing, as will be discussed below). 57% of adults in Zimbabwe use financial services for consumption smoothing. The overview of the need cases in Figure 21 shows the type of financial services that adults use to smooth consumption. It is split between credit, savings and payments. If an adult uses more than one product, it is captured in the overlap. This allows for an understanding of the total number of adults that smooth consumption without double counting.

Largely served through payments. Figure 23 splits out the type of financial services used for consumption smoothing and shows the total percentage of adults in Zimbabwe using those financial services to meet their consumption smoothing need case. The difference between this total and the total in Figure 21 is that the overlap between services has been split out below, so that all instances of usage are indicated for each aspect of the strand, without any allowance for overlap. The figure reveals that payments are the most used financial service to satisfy this need case. 37% of adults are receiving remittances in order to help smooth consumption, compared to 21% that borrow and 22% that save as a means of consumption smoothing.



Figure 23: Consumption smoothing need case uptake by type of financial service category

Source: FinScope, 2014

Informal mechanisms most popular for saving, credit; formal for payments. Within each of the product markets, people use various channels or providers to meet their consumption smoothing needs. Figure 24 illustrates how the various types of providers compare to each other within the three product markets used for consumption smoothing.

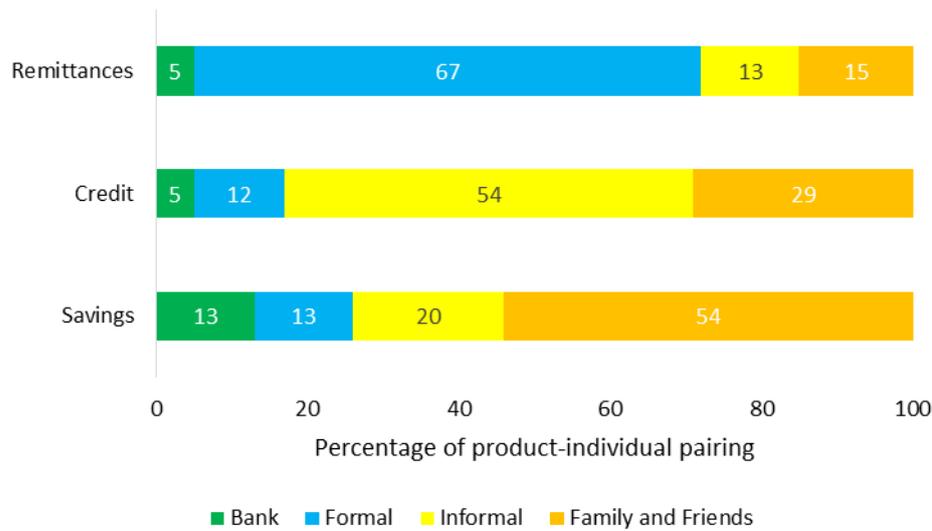


Figure 24: Break-down of consumption smoothing

Source: FinScope, 2014

Non-bank formal providers trump banks for remittances. Of the various instances where adults receive remittances for consumption smoothing, 5% is via a bank, whilst 67% is via a non-bank formal provider (such as EcoCash³⁶). 13% of instances happen via an informal provider (such as a minibus taxi driver) and 15% via a family member or a friend.

Informal credit, saving at home more prominent. Banks play a small role as means of consumption smoothing for credit (5%) and saving (13%). Unlike remittances, non-bank formal providers play a small role in the other two markets (at 12% for credit and 13% for savings, respectively). Instead, most people borrow informally (54% of all borrowing for consumption smoothing), whereas in the case of savings most turn to family and friends or save at home (54% of all saving for consumption smoothing is via this channel). A further 20% of savings for consumption smoothing is via a savings club or Mukando.

6.2.3. Education

Mrs Pedro is a 34-year old widow from Glenview, where she works as a general hand at a supermarket. She has two school-going children. Because she knows she won't have enough cash to pay for their school expenses at the start of the year, she makes a point of putting aside USD2 at home every month for this purpose. (Qualitative study, 2015)

As the case of Mrs Pedro illustrates, the education need case is the use of financial services to meet expenses related to education. Meeting education expenses can be regarded as a subset of consumption smoothing, but given the prominence of education for Zimbabweans, it is treated separately.

³⁶ EcoCash is the name of the mobile money offering provided under the auspices of Econet wireless. From here on out the term EcoCash will be used to refer to both the mobile money offering and the provider of this offering. This is done for the simplicity of referring to the mobile money operator (MMO) portion of the Econet wireless business. See section 8.2.2 for further detail.



Box 5: Education expenses

Primary education runs from Grades 1 to 7, with the official age of entry set at 6 years (Kanyongo, 2005). Primary education is largely free, but parents pay levies in the form of a building fund and sports fees. They also have to buy school uniforms. Secondary level education, which starts in Form 1 (Grade 8) and runs for 6 years as learners progress through their “O”-level and “A”-level studies, is often costly and paid for by parents. School fees vary considerably across different schools. Private secondary school fees range from USD1700 to USD2000 per term. Fees for government schools are approximately USD200 per term (HerZimbabwe, 2015).

Credit and savings principal mechanisms. As can be seen from Figure 25, credit and savings are of approximately equal importance as a means of funding education. Importantly, there is limited overlap between adults who turn to credit and those who turn to savings for education expenses. Thus the credit and savings markets can largely be seen as exclusionary of each other where education funding is concerned, revealing two types of adults: those that pay for their education before it takes place, and those that pay for their education after it takes place.

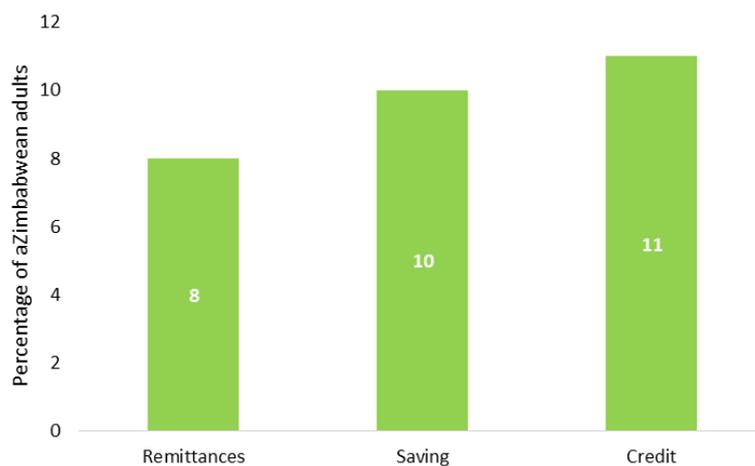


Figure 25: Education need case uptake by type of financial service category

Source: FinScope, 2014

Formal remittances. In terms of specific products, 8% of Zimbabwean adults indicated that they receive remittances specifically to pay for education. This principally takes place via a formal channel such as Western Union or mobile money, which accounts for 79% of remittances used for education purposes.

Informal credit, savings. In both credit and savings, informal mechanisms and self, family and friends play the most important role. 53% of the usage of credit for education is via an informal mechanism, which is primarily a moneylender within the community. A further 29% is from family or friends. For savings, informal groups play a smaller but still significant role, at 22%, with the primary mechanism being the use of a savings round. Half of the instances of saving



for education is through family, friends or through “self-saving”, largely by saving US dollar cash in a secure place at home³⁷.

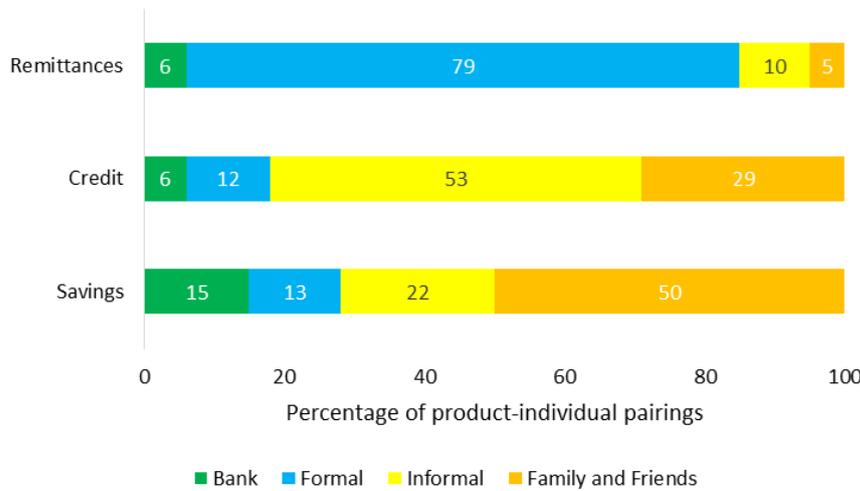


Figure 26: Product types for education need case

Source: FinScope, 2014

6.2.4. Risk mitigation

Mike is a 51-year old general hand supervisor for the Department of Social Welfare. He earns a salary of USD195 per month and an additional USD20 per day from part time jobs. He recently had to take a pay cut due to the economic instability in the country. Mike is a family-oriented man who helps pay the rent for his mother and brother. When his sister fell ill, she had to be hospitalized as she had lost a lot of blood. Though the hospital treated her free of charge, Mike needed USD390 to get enough blood from the blood bank for her to receive adequate treatment. He also still needed to pay for his sister’s medication. Therefore, he borrowed money from a money lender at an interest rate of 30 percent per month, which at the time of the interview he was still repaying. (Qualitative study, 2015).

Risk experience highlights illness, agriculture, death. Zimbabweans experience a wide variety of events that adversely impact their livelihoods and wellbeing. These are discussed in more detail in Section 9.4.1. The insurable risk that Zimbabweans experienced most in the 12 months preceding the FinScope interviews were related to healthcare costs, with 38% of the population indicating that they have faced this risk. This is followed by losses related to agriculture (crop, livestock etc.) at 27%. Death events rank third, with the death of a family member being slightly more prevalent at 10%, compared to the death of a main income earner at approximately 7%³⁸.

Proactive (ex ante) and reactive (ex post) risk mitigation. Risk mitigation is the use of financial services to offset the costs of uncertain events, regardless of when they occur. Risk mitigation

³⁷ An explicit question asking what currency Zimbabwean adults saved in is not present in the survey. The assumption of savings in US dollars is therefore based on the fact that the vast majority of Zimbabweans indicate that they use the US dollar predominantly for all their transactions. .

³⁸ It is important to note that these percentages indicate merely the prevalence of the events and should not be interpreted as a rankings of the events that Zimbabweans fear most. Importantly, risk perceptions take some type of cost into account as events that may be frequent but low cost are not feared as much as events that are low frequency but high cost.



is one of the more sophisticated needs. It requires the definition of two risk mitigation categories, namely:

- **Ex ante risk mitigation:** Behaviour or actions that take place before the occurrence of a specific event. In such a case, an individual will interact actively with financial services in order to ensure that they can cope with a risk event, should it occur. Two financial services are relevant as ex ante risk mitigation measures:
 - *Insurance:* Insurance is a proactive attempt by the individual to ensure that, upon the occurrence of a particular risk event, financial resources will be available in order to partly or fully mitigate the losses or expenses associated with the event.
 - *Savings:* Savings will only be considered to be ex ante risk mitigation behaviour if savings activities are undertaken with the explicit goal of mitigating possible future losses or expenses associated with a risk event. A person that saves for a particular risk event will also be part of the potential insurance target audience for insurers.
- **Ex post risk mitigation:** Behaviour or actions that take place after the occurrence of a specific event, in reaction to such an event. The person has not made specific provision for the risk event, but faced with costs or expenses due to the risk event, they engage in financial services to cope with the cost. The three types of products that can meet ex post risk mitigation include:
 - *Credit:* This refers specifically to credit that is taken up in response to a risk event occurring.
 - *Savings:* Only reactionary savings behaviour is classified here. If an individual saves 'in general', rather than specifically for risk events, and uses these savings to meet the expenses or losses associated with a risk event, the individual will have behaved in a reactionary manner.
 - *Remittances:* Remittances in their own right do not fall under this need case³⁹; however, due to their prominence in providing funding for various risk events, they merit a discussion here.

Pre-emptive savings behaviour most popular. Section 9.4.2 outlines the use of the various instruments noted above to mitigate risk. It shows that 47% of adults would use savings to mitigate risks (43% engage in ex ante savings, 4% ex post savings), 10% obtain loans and 2% utilise remittances. Only 10% indicate that they would claim insurance as coping strategy. Within savings overall, the most popular tool for risk mitigation is to save at home or with family members or friends, whilst the most popular manner in which risks are mitigated through credit is via informal credit, such as via money lenders,.

6.2.5. Encashment

Gogo Chikuse is a 59 year old grandmother who lives in Murehwa with her 3 grandchildren. She receives remittances of USD300 from her son who resides in Highfield on a monthly basis, using EcoCash. While she does not have any other sources of income, she grows different kinds of crops as a means of reducing her expenses and supplementing her food

³⁹ Typically, a remittance transaction would trigger an encashment need and then a bill payment or local payment need depending on the type of risk event experienced and the payment modalities. Therefore, it does not meet a risk mitigation need in its own right but rather via a combination of other needs that are satisfied in a specific order.



needs. Gogo Chikuse mainly transacts in cash. As a result, she withdraws all of her money from her EcoCash account and makes payments accordingly. (Qualitative study, 2015)

Remittances, salary payments give rise to encashment need. Encashment refers to the need to transfer electronic value into physical cash. Whilst FinScope (2014) did not pin down the exact number of adults that specifically indicate that they convert electronic value into cash, it can be estimated via two different mechanisms: either via a salary payment that is electronic, or via a remittance payment that is electronic. Thus the primary payment need case (bill payment or RDTV) gives rise to a secondary encashment need case. The encashment need is based on the assumption that *a substantial part* of this transfer will be withdrawn at some point, an assumption that is borne out by the overwhelming prevalence of cash as means of transacting in Zimbabwe. As Figure 27 indicates, 23% of adults receive salary payments and 39% receive remittances.



Figure 27: Overview of encashment needs case

Source: FinScope, 2014.

Remittances biggest encashment need. 48% of Zimbabweans display the need for encashment. Within this need, remittances account for the larger proportion of encashment (approximately 1.7 times that of salary encashment).

Banks cater for salaries, mobile money for remittances. Figure 28 illustrates the providers that compete within the encashment space. The “strict” remittance and salary strands illustrate how encashment is broken down when only formal or banked products are considered⁴⁰, whilst the total strands illustrate how the two channels compare when cash is also taken into account. Thus the total remittance and total salary strands indicate the encashment needs alongside similar transactions that are conducted in cash (and hence do not trigger an encashment need). Comparing the total and strict strands provides an estimate of the number of adults that would require an encashment need if their salary or remittance transactions were moved into the formal financial system. In the case of salary payments, this would more

⁴⁰ Only banked or formal channels can trigger an encashment need since encashment is defined as the ‘conversion of electronic value into physical cash’. The strict strands thus illustrate the encashment need, whilst the total strands allow for a contextualization of these channels. This allows for an understanding of how the encashment need will grow in Zimbabwe if individuals that are using non-formal channels migrate into the formal channels (as has been the case with mobile money, discussed in section 9.3 below).



than double the encashment need, whilst in the case of remittances, the need would experience a much smaller increase. Overall, banks cater to the encashment needs of salaried adults, whilst barely catering to any of the needs of remittance receivers, whilst non-bank formal providers satisfy the encashment needs of the vast majority of remittance receivers as well as a sizable proportion of salary receivers.

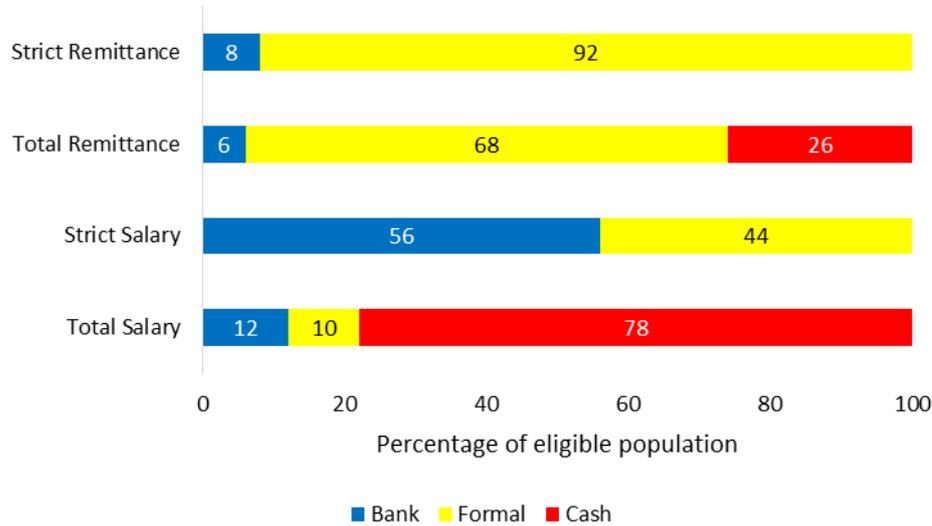


Figure 28: Overview of encashment providers

Source: FinScope, 2014

6.2.6. Asset accumulation

Mr Chuma is a lecturer in Harare, where he resides with his wife and their two sons. He works at Seke Teachers College and at the University of Zimbabwe. He earns a combined monthly salary of USD2000 from his teaching posts. He is the main income earner in the household as his wife was retrenched in 2014. Using some money from their savings and the money his wife received from the severance package, they started a small business selling clothes and chickens. Mr Chuma owns several assets including three cars and a personal computer. In 2013, he took out a loan of USD10 000 from CBZ bank to build his own house. He repays USD450 per month. (Qualitative study, 2015)

Either save or borrow. The asset accumulation need case refers to the role of financial services in helping people to acquire and build assets. FinScope (2014) shows that credit and savings are used more or less equally to this end. A very small proportion of adults also use remittances in order to acquire assets.

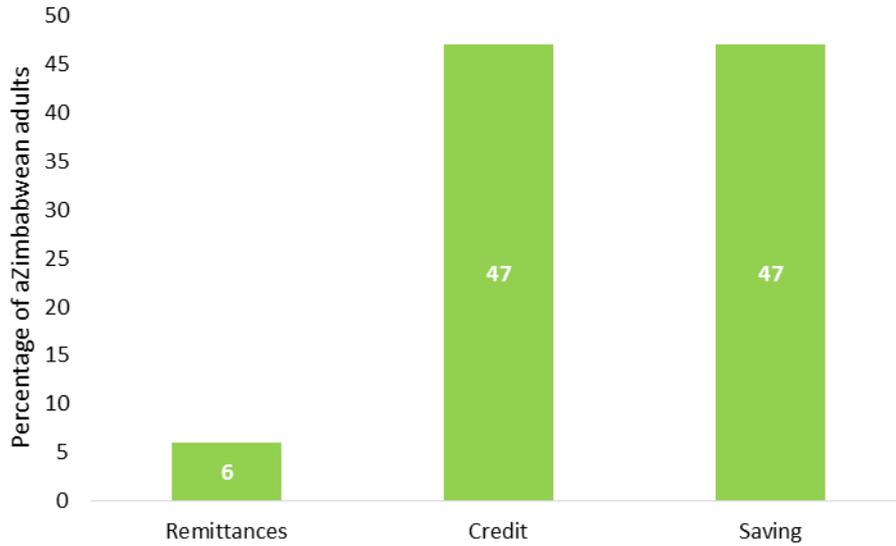


Figure 29: Asset accumulation need case uptake by type of financial service category

Source: FinScope, 2014

The needs channel strand in Figure 30 shows which providers are most prominent for this need case in the credit and savings market, respectively.

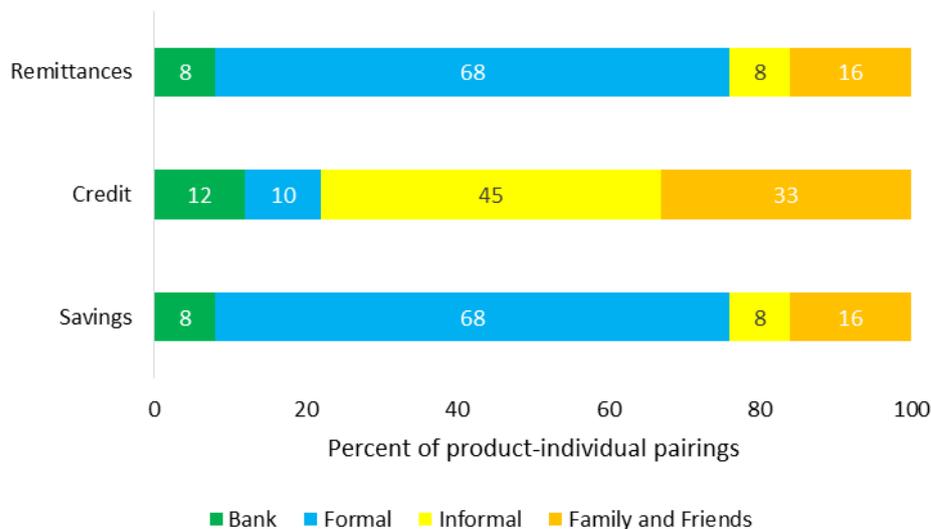


Figure 30: Types of providers accessed to meet the asset accumulation need case

Source: FinScope, 2014

Limited asset building through formal lending. Within credit, people primarily turn to informal money lenders for loans to build assets, followed by family and friends. Banks and other formal providers account for less than one in every four asset accumulation credit instances.

Saving at home most popular. Where saving for asset accumulation is concerned, formal finance plays a slightly larger role. In 18% of instances, asset accumulation saving is in a bank. Another 15% takes place largely via mobile money. Informal savings (24%) are almost entirely driven by savings in a savings club whilst the largest category, family friends or self at 44%, is driven by adults saving at home or in a secret hiding place.



6.2.7. Providing for agricultural inputs

Nyarai is a commercial farmer in Kwala along with her 4 siblings. She grows flue-cured tobacco and profits approximately USD2000 - USD2500 per season from her harvest. Nyarai gets an input loan from Zimbabwe Leaf Tobacco Company worth USD3500, on the condition that she sells her produce to them. She uses the input loan to purchase items such as fertilizer and seeds, which she otherwise would not be able to afford (Qualitative study, 2015)

Farmers have an expressed need for working capital for agricultural production. This creates a need case for financial services to enable the purchase of such working capital. As the diagram below indicates, this need case is in the first instance served through payments. In only 10% of instances was people able to satisfy their need for working capital through savings, reducing further to a mere 4% for credit.

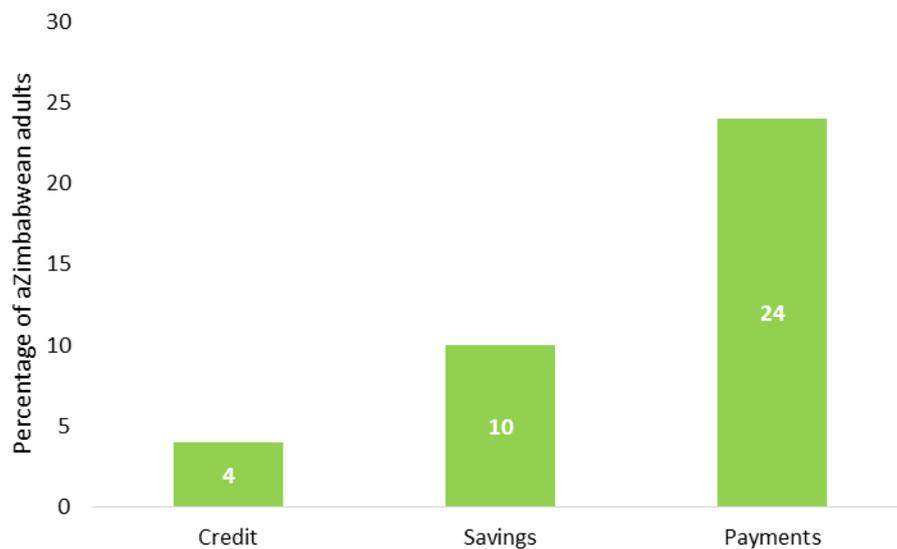


Figure 31: Agricultural financing need case uptake by type of financial service category

Source: FinScope, 2014

Subsidies the main port of call. The nature of the FinScope questionnaire does not allow for the further sub-segmentation into channel strands, apart from indicating that the payments referred to above are primarily driven by government and NGO subsidies that are awarded to farmers. Thus, to the extent that farmers are able to purchase working capital, they do so largely on the back of subsidised support or own savings and have very limited access to credit to serve this need.

6.3. How do needs differ across the segments

Large unmet needs for poorer target markets. FinScope (2014) does not currently capture needs in their own right. Instead, revealed needs are used for the construction of the need cases, meaning that adults must engage with a particular financial service with a specific end in mind (such as risk mitigation) in order to be counted as expressing a need. As FinScope does not capture the potential market, but only the revealed market, there is likely to be large pent



up demand not met through financial services. This is likely to be exacerbated in the poorer target markets, where revealed needs are significantly lower than higher income markets.

Table 4 below provides a cross-target market view of the core need cases. For each target market segment, it indicates the top three ranking, in percentage of adults expressing this need case, across the various product markets. Note: payments is the one exception. As local payments and bill payments rank first and second in each target market, the next three highest rankings are also indicated to differentiate between target markets.

	Credit	Savings	Payments		Insurance
Survivalist workers	Consumption (21%) Education (12%) Risk (9%)	Risk (30%) Consumption (17%), Education (8%)	Local (97%) Bill (82%)	Encashment (32%) Consumption (26%) Education (4%)	Risk total (51%) Insurance risk (24%)
Farmers	Consumption (15%) Asset (11%) Agriculture (8%)	Risk (36%) Consumption (18%) Agriculture (13%)	Local (98%) Bill (86%)	Encashment (38%) Consumption (32%) Education (7%)	Risk total (59%) Insurance risk (27%)
Dependents	Consumption (23%) Asset (15%) Risk (11%)	Risk (37%) Consumption (18%) Assets (11%)	Local (87%) Bill (80%)	Encashment (45%) Consumption (35%) Education (7%)	Risk total (63%) Insurance risk (36%)
Remittance receivers	Consumption (21%) Asset (13%) Education (12%)	Risk (47%) Consumption (28%) Asset (10%)	Local (95%) Bill (84%)	Encashment (64%) Consumption (60%) Education (12%)	Risk total (71%) Insurance risk (35%)
MSMEs	Consumption (21%) Asset (15%) Risk (11%)	Risk (56%) Consumption (27%) Asset (22%)	Local (99%) Bill (92%)	Encashment (54%) Consumption (42%) Education (9%)	Risk total (79%) Insurance risk (40%)
Salaried workers	Consumption (31%) Asset (21%) Education (17%)	Risk (73%) Consumption (32%) Asset (30%)	Local (99%) Bill (97%)	Encashment (82%) Consumption (47%) Education (13%)	Risk total (92%) Insurance risk (73%)
Zimbabweans abroad – <u>indicative/likely needs</u>	Building assets Investment in business	Building assets Investment in business Education for family members	N/A	Remote cross-border transfer of value (inflows)	Risk mitigation – funeral cover for family members; own life cover

Table 4: Cross-target market need case summary: top three need cases in percentage of adults expressing the need for each product market

Source: Authors' own calculations based on FinScope (2014)

Different markets serve same needs. Table 4 illustrates that one need is often served in more than one product market, though the product market ranking may differ between target market segments. For example, survivalist workers' need for consumption smoothing is primarily served in the payments market, followed by credit and then savings. Salaried workers also smooth consumption primarily through payments, but more turn to savings before accessing credit for this need.

Similar need case rankings for all segments. Another important finding apparent from the table is that primary, and often secondary, needs are fairly consistent across segments. This holds true across all the different product markets. For example, risk mitigation is the main need case for all target markets in savings, as is encashment for payments. The implication is



that Zimbabweans have similar “universal” needs, regardless of their income and livelihood profile. The following examples illustrate:

- *Bill and local payments prominent throughout.* The table shows that making local and bill payments are the biggest universal needs for all target markets. Aside from dependents, more than 95% of all target markets make local payments⁴¹. A similar trend is reflected with bill payments, with the lowest ranking target market being dependents at 80% and the highest ranking target market being salaried workers at 99%.
- *Using a suite of products to meet consumption smoothing needs.* Consumption smoothing is another universal need. It emerges as a top-three need across all of the target markets within the savings, credit and payment product columns. This indicates that all Zimbabweans use a variety of products to meet their consumption smoothing needs.
- *Saving for risk, borrowing for consumption.* Zimbabweans of all walks of life use savings tools to make provision for risks, whilst using credit in order to make ends meet when they have insufficient funds to do so themselves.

Needs more or less expressed, depending on income. While the ranking of needs may be similar across target markets, the percentages are not. It is notable that the higher-income target markets have a bigger expressed need for various financial services than the lower-income earning segments. Thus, though risk mitigation, for example, is an important reason for saving across all target market segments, it is relevant that 73% of salaried workers express this need in savings behaviour, consistently reducing across the segments to only 30% for survivalist workers. The same pattern holds for consumption smoothing in the credit market and encashment in the payments market. Thus, though needs are universal, ability to serve those needs through financial services differs by income and profile.

Various target market-specific nuances. Products aiming to serve the Zimbabwean market will need to take a number of finer target market nuances for various need cases into account, including:

- *Insurance grows strongly with income.* Risk mitigation is an important need across all of the target markets that is served by various product markets. Where the use of insurance for risk mitigation is concerned, the “risk total” variable in the insurance column of Table 4 indicates the total proportion of adults in the specific target market that are involved in risk mitigation activities. The share of insurance in those activities, indicated by “insurance risk”, rises alongside income, revealing an important finding: whilst risk mitigation is an important need for all target markets in Zimbabwe, only higher income adults tend to be able to access insurance.
- *Encashment most prominent with salaried workers, remittance receivers.* Encashment is a prominent need throughout all of the target market segments, however, it peaks in the segments that are most reliant on electronic payments to receive their income – namely salaried workers and remittance receivers.
- *Poorer target markets using savings to better their lives, wealthier target markets using savings to accumulate assets.* The poorer two target markets – survivalist workers and farmers – are using their savings in part to better their lives through education (survivalist)

⁴¹ Dependents have a significantly lower propensity for local payments due to the fact that they indicated that their families take care of all their expenses. Thus a more sizable portion of dependents would not pay for the goods and services they consume themselves.



as well as working capital (farmers). The remainder of the target markets engage in savings behaviour to accumulate assets, with an ever higher relative proportion⁴² of people engaging in asset accumulation, the higher up the income spectrum they progress.

⁴² The relative proportion is given as the proportion of those engaging in asset finance divided by the proportion of those engaging in the leading savings behavior. This allows for rough adjustment to be made for target market specific effects, such as income.



Part C. The market response

Part C provides an overview of the current supply of financial services in Zimbabwe. It starts off by outlining the overall trends across different types of providers in the market, leading with a narrative on the key issues or trends relating to each. It then delves deeper into the providers, products, regulatory issues and barriers in each of the four product markets of payments, savings, credit and insurance, respectively.

7. How do people view financial services?

Even if financial services meet customer needs, people still have to *decide to use them*. The usage decision is not driven only by objective factors, but also relies on perceptions, trust and financial capability. The last aspect of the demand-side analysis considers financial capability as gauged from the quantitative and qualitative demand-side research.

A high degree of awareness, but many believe they do not qualify. Only a small minority (under 3%) of Zimbabwean adults indicate that they do not understand how banks work, the financial language that banks use or that they do not know how to open a bank account (FinScope, 2014). Two of the most well-known financial services in Zimbabwe deal with risk mitigation. FinScope (2014) reported that 75% of respondents are aware of funeral insurance, followed by 61% that are aware of a medical aid. However, on investments, only 40% of adults indicated that the reason that they do not invest is due to a lack of awareness and financial education. Yet, when probed regarding why adults do not have bank accounts, the leading reason is that they do not believe that their incomes are large enough to qualify for a bank account – a view that is echoed in the qualitative work:

Interviewer: Do you have a bank account?

Respondent: Uhhmm no. I think the money is too small for a bank account. I have never used banks because I don't think I would qualify.

Farm worker, Male, 29 years old

Reluctant to seek advice. Over 77% of Zimbabweans indicate that they do not seek financial advice when they are making financial decisions. Of those that do seek advice, the largest proportion obtain their advice from influential people in their community (business people, school principals, etc). Only 1% of adults indicate that they receive advice from financial institutions. This is despite 77% of Zimbabweans indicating that they find dealing with their current financial situation stressful.

Mistrust of the formal financial sector. The economic crisis is still fresh in Zimbabweans' memory. This, combined with fear of the reintroduction of the Zimbabwean dollar, has led many Zimbabweans to avoid the formal financial sector. This is most prevalent in savings, where the analysis indicated above showed that many Zimbabweans save at home and under the mattress. However, the qualitative research indicated a high level of trust in mobile payments.

Interviewer: What did you see that really interests you in the banking system?



Respondent: The Eco-cash, yes that's really good, we don't really trust banks but there are other better banks like Standard Bank or Chartered and CBZ.

Farmer, Female, 49 years old

Interviewer: What about banks? How do you feel about having a bank account?

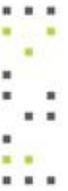
Respondent: I never had a bank account but some people complain about the charges and In 2008 banks closed and they went away with people's money so mmm I don't like banks

Farmer, Female, 27 years old

Interviewer: Why do you not have a bank account?

Respondent: I don't have enough money to put in a bank and I don't have the requirements to open a bank account. I also heard people say that banks eat people's money.

Informal trader, Male, 17 years old



8. Supply-side overview

A range of formal and informal providers. Figure 32 below provides a summary of the different financial services providers (FSPs) active across the four product markets of the financial sector. It shows that there are a range of providers active in each of the product markets, including a mix of formal and informal providers. Some FSPs operate across more than one product market; namely, MMOs, banks, building societies, SACCOS and informal groups. It must be noted that this figure shows the primary providers of financial services and not the distribution channels. When distribution channels are taken into account, some providers will touch more product markets. For example, banks can distribute insurance or retailers can be a channel for payment services.

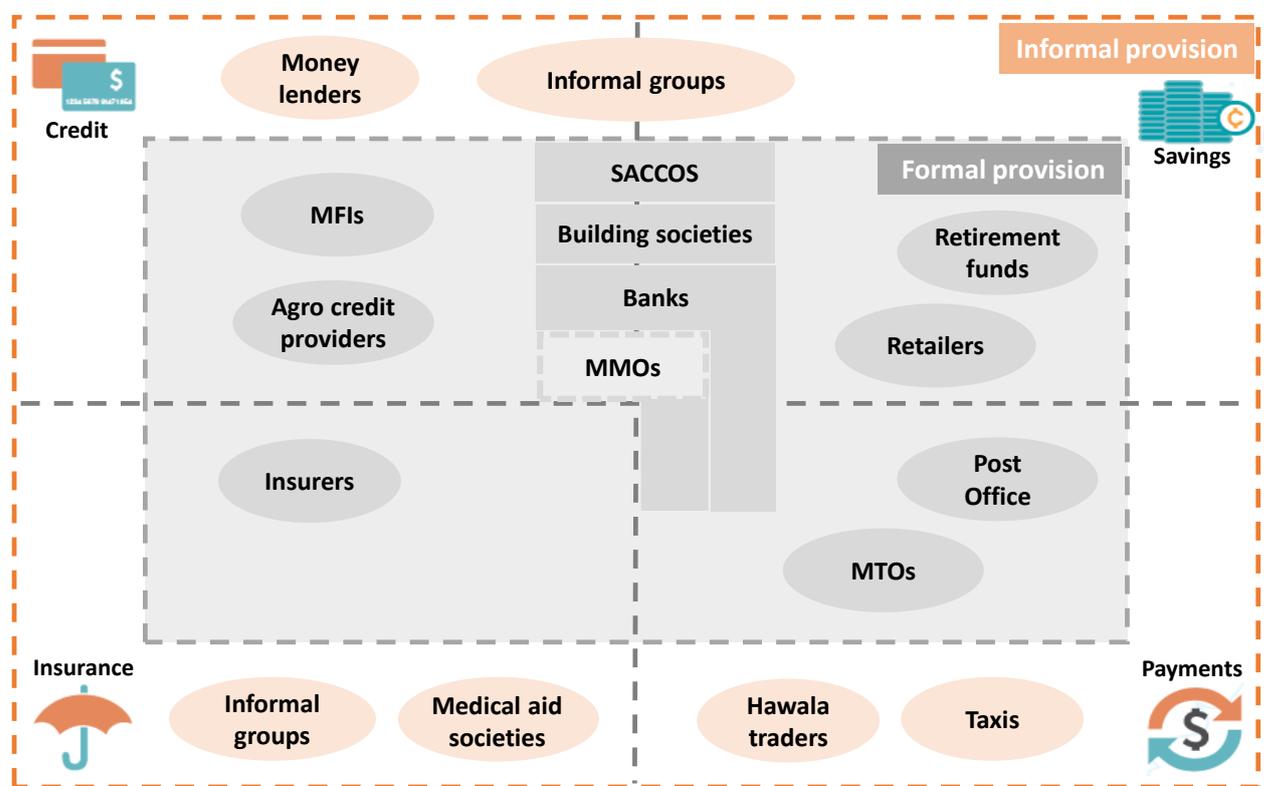


Figure 32: Landscape of formal and informal providers⁴³

Source: Authors' own based on supply-side research (see section 8.2)

Evaluating the supply response. How does the financial market in Zimbabwe respond to the needs for financial services of the population set out in the previous chapter? This section seeks to answer that question, considering not only the response by formal regulated and supervised financial institutions, but also informal entities and adults, which are normally part and parcel of local communities. Since so much of the need for financial services in Zimbabwe is met within households themselves, the extent of this residual meeting of needs is also considered.

⁴³ Formal financial services provider in this report is defined as a provider that is both regulated and supervised. An informal provider is one which is unsupervised.



It starts off by sketching an overarching picture of trends and features, before outlining the nature of provision by each main category of formal service provider.

Key issues: Supply-side overview

- The dominant demand for formal financial services is for payments. The **mobile money operators (MMOs) responded strongly and aggressively**, building not only a wide encashment ecosystem, but also clustering savings, credit and insurance services around their core payments offering.
- **Banks have lagged**, for a number of reasons. (1) they have been battered by the economic crisis precipitated by hyperinflation and the introduction of a multi-currency regime – which has seen the demise of a number of banks with the concomitant loss of depositors’ savings; (2) the traditional intermediation role has become stunted and they struggle to improve funded revenue; (3) they were not able to match the infrastructure extension of the MMOs, so their fee-based revenue is not growing to make up for the decline in funded revenue.
- **Bank still have an important role in cash provision**, but this is becoming a constraint. Following dollarization, RBZ no longer supplies cash in the country – this is now done by three private banks. However, they were not able to price for this, which has inhibited financial services at the low end.
- **Insurers are recovering** after the hyperinflation period, but the way in which dollarisation was managed has seriously dented confidence of the population in these institutions, with the exception of funeral insurers who provide benefits in kind. The bulk of insurers’ revenue comes from corporates, and the corporate sector is increasingly challenged. Thus compulsory pension contributions and group life insurance revenue is slipping and funeral insurance is the only real growth market.
- **MFIs are squeezed** because the credit market is under pressure and banks are moving into their traditional space. The stronger MFIs are bank-owned – the banks use this institutional model to overcome the interest rate structures that apply to their mainstream operations.
- The **informal financial sector is vibrant** as Zimbabweans turn to mutual support in difficult circumstances. Informal savings are particularly strong. Informal credit is reducing as part of the general decline in the credit market.
- **Family and friends** remain the largest source of informal financial services as families and communities turn to each other in very hard times. The distrust in formal financial services has also caused people to keep their money in hard cash at home – confirming the critical role of **cash provision** as noted above.

8.1. The supply response to consumer needs: overview

Section 6.2 made it clear that the dominant need for financial services, given the current economic crisis and massive migration of the Zimbabwean population, is for payment services. In the current environment the marginal propensity to save is low, so those who save can generally do so only in small amounts and mostly in cash. Formal credit is unaffordable for most of the population, unless you are employed and can deliver a payslip. In this



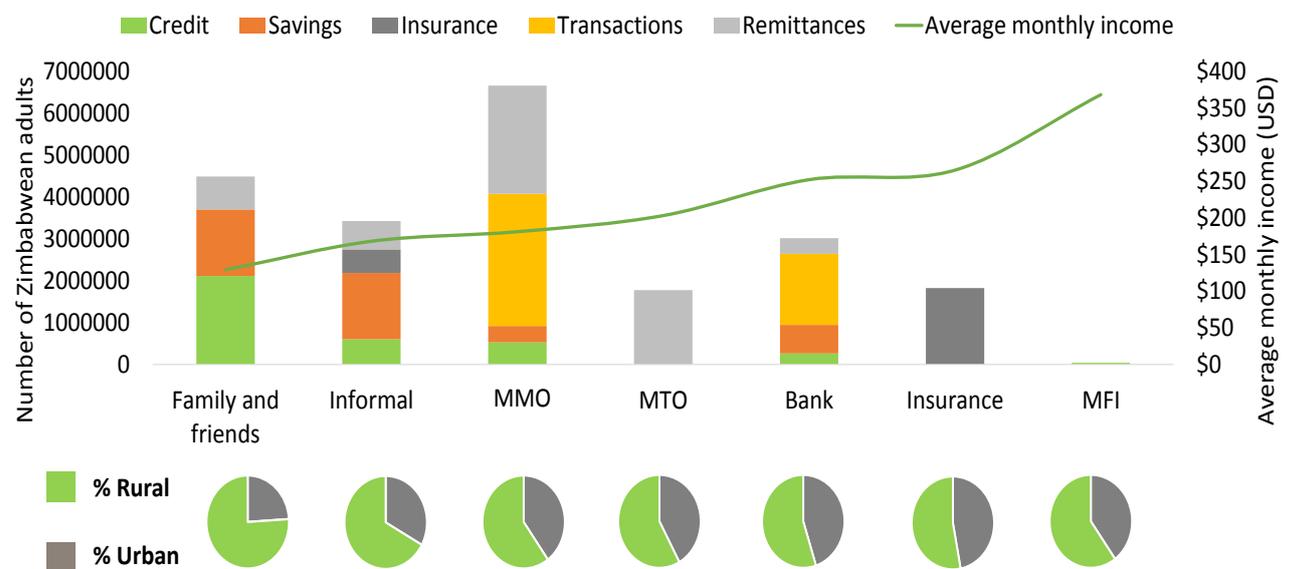
environment, banks have stumbled, whilst mobile money operators were better placed, saw the opportunity and responded aggressively. As the bulk of the population have fallen through the cracks in the formal economy, it is also no surprise that most financial services needs are met by family and friends and informal community-based entities.

Figure 33 below sets out the usage of financial services provided by each provider category. The figure disaggregates usage by product category, i.e. credit, savings, insurance, electronic transactions and remittances. This enables a view of how each provider type meets the full spectrum of customer needs⁴⁴. The figure also shows the average income of the customers of each provider category and what percentage of them live in rural areas:

Figure 33: Usage of financial services by provider type

Source: FinScope, 2014

Mobile money operators the largest providers of need for formal services. From the figure above it is clear that MMOs are now the single largest provider category of formal financial services to Zimbabweans by number of users. This dramatic change in provider preference



and uptake has happened in only three years given that MMOs only started to operate in 2011 and the FinScope numbers are for 2014. Evidence from PORTRAZ (2015) indicates that this swing to MMOs has accelerated further since the FinScope survey in 2014 and that by June 2015 6.2 million Zimbabweans, well over 80% of the adult population, subscribed to one of the mobile money services. What is particularly significant, is that MMOs exceed bank usage not only in transactions and remittances, which is their primary service, but also in credit. Since MMOs by themselves cannot offer savings and credit products, but must do so in partnership with banks, the FinScope outcome speaks of the *perception* of customers that these services are in fact offered by the relevant MMO, rather than a bank.

MMOs the most trusted financial institutions. FinScope (2014) (see Figure 34 below) also revealed that MMOs now enjoy marginally higher levels of consumer trust than banks or, for

⁴⁴ Note that there must by definition be double counting and the total on the y-axis is therefore not discrete individuals, but instances of usage by individuals of each product type



that matter, any other category of financial institution. The average income of their customer base, as reflected in Figure 33 above, is also lower than any other formal provider.

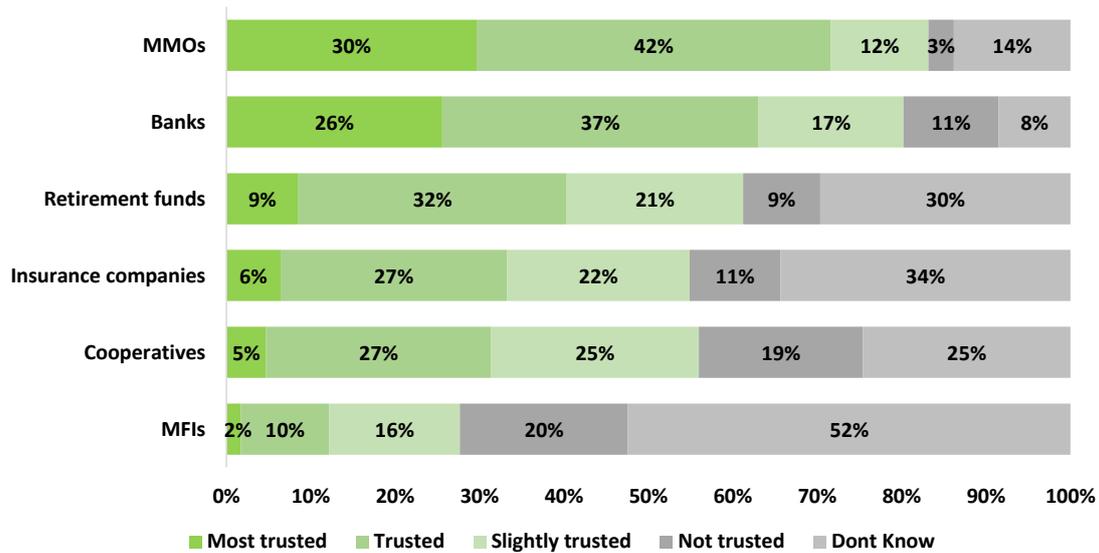


Figure 34: Levels of trust of formal institutions

Source: FinScope, 2014

Dominance of EcoCash facilitates MMO growth. There are four MMOs operating in Zimbabwe: EcoCash, operating on the Econet mobile platform, TeleCash, provided by Telecel, OneWallet provided by NetOne and NettiCash, which is network agnostic. EcoCash dominates the market with just more than 75% of subscribers (as outlined in Section 8.2.2). The dominance of EcoCash is a major driver in the rapid adoption of mobile money due to positive network effects. However, there are also other strong drivers favouring MMOs over especially banks. Firstly, MMOs have aggressively extended their agent network to provide the essential cash-in and cash-out functionality without which mobile money cannot grow in a cash-based economy. Figure 35 below illustrates the relative growth of mobile agents compared to traditional banking infrastructure. By the end of 2014 there were 7 MMO agents for every bank branch, ATM and bank agent combined. Moreover, the MMO agent network reached much further into rural Zimbabwe than any of the banking infrastructure.⁴⁵ In effect, within just three years MMOs developed an infrastructure that can deliver payment services to Zimbabwean adults at lower cost and more conveniently than banks. Notably, these adults use it in preference to banking infrastructure.

⁴⁵ This is also reflected in the fact that by 2014 MMOs already had more rural users than any other formal provider (see Figure 33 above).

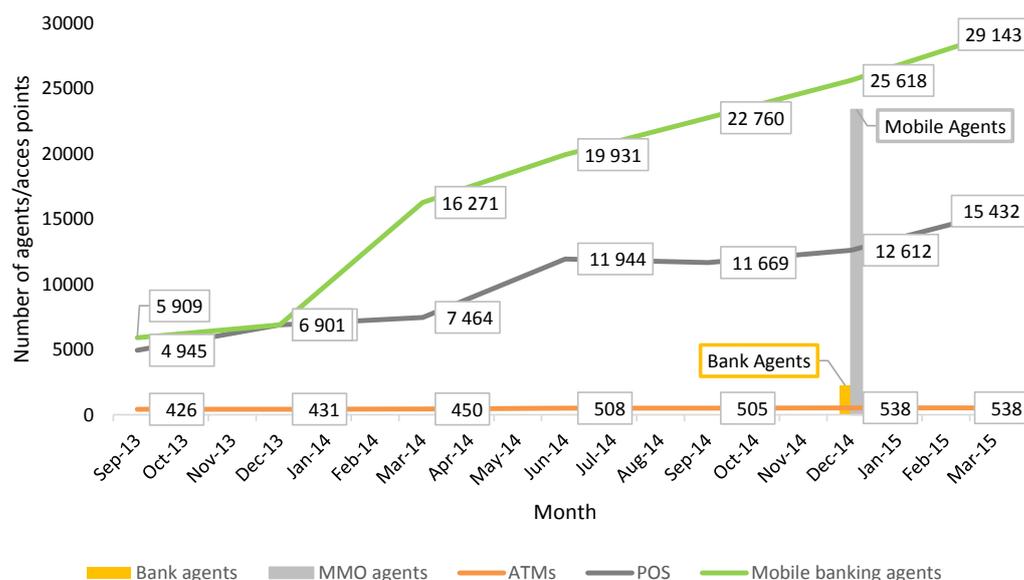


Figure 35: Overview of banking sector and mobile money infrastructure

Source: RBZ, 2014

EcoCash creating convergence model. EcoCash is currently the only MMO that offers financial services other than payments over its network. A factor that has grown rapidly in recent times. The evolving EcoCash model clusters the delivery of other financial services – savings, credit and insurance – around its core mobile payments platform, creating a convergence of financial services through a single telecommunications channel. To facilitate this, Econet Wireless has taken the approach of purchasing a bank subsidiary, now renamed Steward Bank, rather than partnering with a third party entity (stakeholder interviews, 2015). Steward Bank, which has its own limited branch network, hosts the savings and credit accounts offered as EcoCash Save and EcoCash Loan respectively. These savings and credit accounts are accessed by customers entirely on their mobile device and do not require any branch engagement. Moreover, EcoCash Loans do not require collateral other than a minimum amount saved in EcoCash Save. Steward Bank uses, amongst others, transaction data through EcoCash to determine credit risk. This model does not in any way rely on traditional collateral, payslips or credit information from a credit bureau to determine credit risk (see section 9.1). This gives Steward Bank a massive advantage over traditional banks in an environment of growing informalisation where less than 10% of adults remain employed in the formal sector. In 2014, Econet Wireless registered its own life insurer, EcoLife, and has started offering funeral insurance at very competitive rates over the EcoCash platform (see section 9.4).

Banks' market share has shrunk. As outlined in Section 5.1, banks are serving fewer customer needs than they did in 2011 when the previous FinScope was done. In particular, Figure 33 shows that banks are completely overshadowed by MMOs and MTOs in the payments space, their traditional strength. Even though banks still held most formal savings customers in 2014, significantly more people in total save in informal ways. The qualitative demand-side research recounted countless incidents where the respondents knew somebody who lost money in a bank or had their accounts frozen (qualitative study, 2015). Banks thus suffer a serious trust



deficit, which undermines their personal business.⁴⁶ Furthermore, the economic crisis also put their corporate book under pressure. The result is a non-performing loan (NPL) ratio about four times higher than neighbouring South Africa - see Figure 36 below. If anything, the actual position is worse as stakeholder interviews (2015) revealed a practice of rolling over problem loans, which would not be captured in these figures. Along with a reduction in customers, there has been a contraction in the number of institutions. After a number of financial service providers already closed their doors during hyperinflation, eight further banks left the market between 2009 and 2014. To resolve the issue of stressed banks, the RBZ is implementing a number of measures, including the establishment of the Zimbabwe Asset Management Corporation (ZAMCO), the introduction of a facility to re-establish the inter-bank market as well as regulatory changes (see section 8.2.1).

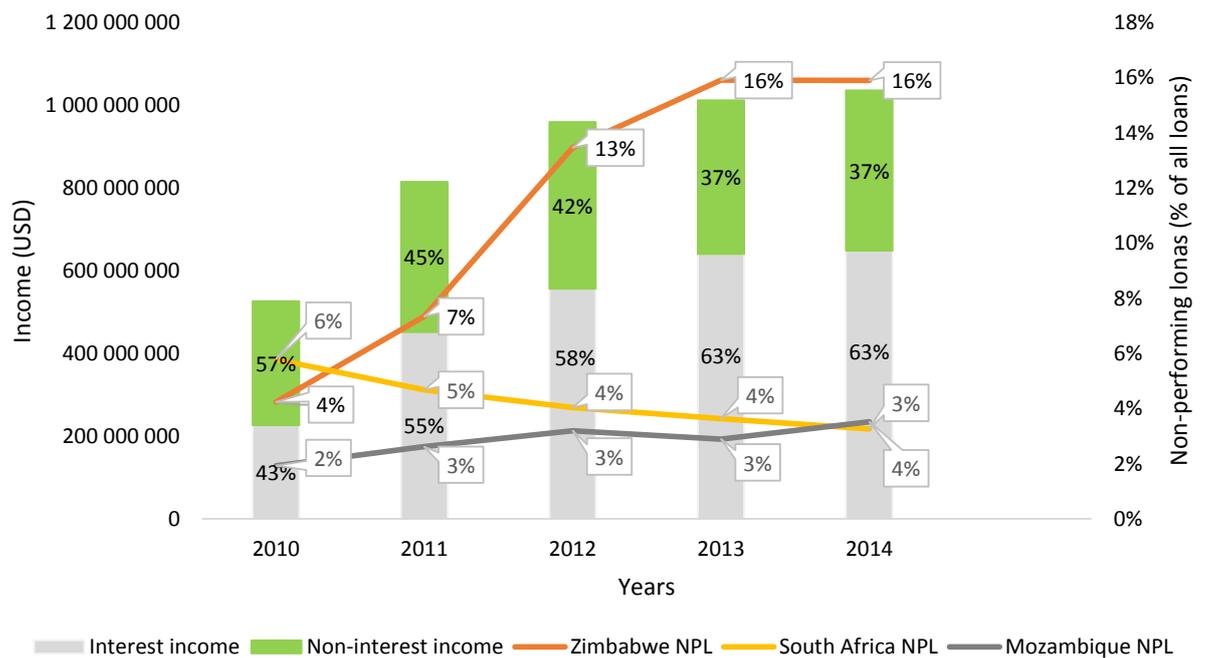


Figure 36: Percentage of bank non-performing loans and source of revenue split (2009-2014)

Source: RBZ, 2015⁴⁷

Hyperinflation and the multi-currency regime hurt banks. The declining role of banks in financial inclusion over the past three years is due to a number of reasons. Banks have been battered by the economic crisis precipitated by hyperinflation and the subsequent adoption of the multicurrency regime (see the Box 6 on dollarisation below). During the inflationary period a number of banks went under and depositors lost savings, denting confidence in the banking system and its ability to preserve depositor value. In 2009, banks lost much of their asset base and income when Zimbabwean dollar denominated loans were not converted into US dollar loans. As depicted in Figure 37 below, they had to rebuild their deposit-base, which

⁴⁶ This is despite evidence shown in Figure 34 above that the institution of banking is still a trusted concept. In current market conditions, the qualitative research and stakeholder interviews (2015) indicated that customers did not have faith that these providers could remain trustworthy.

⁴⁷ Non-funded revenue is revenue that does not come from interest and is sometimes referred to as non-interest revenue. Similarly, funded revenue can also be referred to as interest revenue.



grew from USD1.4 billion in 2009 to USD4.4 billion in 2014. However, most of the deposits remain short term.

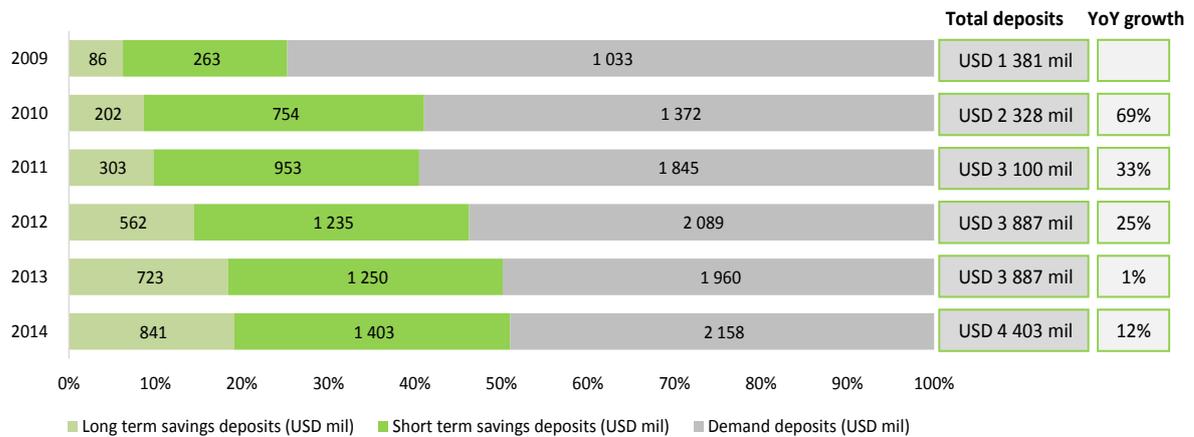


Figure 37: Split of formal sector deposits (2009-2014)

Source: RBZ, 2015

Box 6: Impact of hyperinflation and dollarisation

The period of hyperinflation and subsequent dollarisation⁴⁸ has had a marked impact on the Zimbabwean economy as a whole (see Section 2). The financial sector has been no exception. This impact has been felt by the state, financial service providers (FSPs) and customers alike:

Policy impact

Reduction in monetary policy tools. The conversion to a multi-currency environment removed the ability of the RBZ to directly influence the monetary supply and thereby removed a monetary policy tool. This was due to two factors, firstly, the removal of the Zimbabwean dollar naturally took away the creation and reticulation a local currency. Secondly, the commercial banks and local market have become the key importers of currency, not the RBZ (see section 3.1.1.1).

No lender of last resort. After an initial economic rebound post dollarisation, GDP growth has begun to slow and with it the capacity of the economy to contribute to the government fiscus. In 2014 the government recorded a budget deficit and with it, an inability to recapitalise the RBZ to restore the lender of last resort function (see section 3.1.1.6).

FSP impact

Hyperinflation resulted in unstable and constrained FSP environment. During the hyperinflation period in Zimbabwe, both monetary assets and liabilities deteriorated rapidly in value. To illustrate, at its height, year on year inflation peaked at 89.7 sextillion percent in November 2008 (Hanke, n.d.). At this level of inflation what monetary value was held declined by the second. As a result, consumers ceased storing value in banks, and to the extent that they were able, converted value to foreign currency on the black market. Banks placed withdrawal limits to help with slowing down the outflow of capital (BFA, 2012). At the same time, the FSPs’ loan books were rapidly decreasing in value as the static loan value commitments lost their relative value. It became increasingly unviable

⁴⁸ The main measure adopted to put a halt to hyperinflation was the introduction of a multi-currency regime and, consequently, the removal of the local Zimbabwean Dollar as legal tender. The US dollar was chosen by the government and FSPs as the currency denomination to use when reflecting monetary value. By virtue of this act and its inherent stability and accessibility in the market, it has become the de facto currency. However, border towns and those in the vicinity are more open to the currencies utilised across the border.



for FSPs to provide credit and credit providers were faced with ceasing the extension of loans to consumers. With any set payment value rapidly losing value, insurance companies eventually stopped selling and collecting premiums, and retirement funds which had largely converted to a defined contribution format by this time, were forced into a similar position. The stock exchange became a last safe haven port as the value of shares tracked the inflationary rise.⁴⁹ Notably, informal providers were not spared and experienced a similar scenario of parallel rapid devaluation of their deposit books and outstanding loans. FSPs across the spectrum failed and went into liquidation. (stakeholder interviews, 2015)

Dollarisation resulted in the need to rebuild from a low base. The implementation of dollarisation in 2009 was sudden and overnight accounts held in Zimbabwean dollars no longer had any value as they were converted into their US dollar equivalent value (see section 2.2). The result of this process was that monetary deposits, credit liabilities, life insurance and pension policies held in Zimbabwe dollars were effectively wiped out. Both customers and FSPs had to rebuild from a low base.

Full conversion is still underway, FSP market remained unstable in the rebuilding period. As discussed above, FSPs were forced to slowly rebuild their deposit base and, where possible, draw in from their surviving asset base or access to additional capital (e.g. recapitalisation or credit lines from third parties). Not all FSPs survived this process and many more closed their doors subsequent to dollarisation (stakeholder interviews, 2015). The initial dollarisation conversion process did not take into account the fixed assets sitting on the balance sheets of banks, retirement funds and insurance companies and hard currency stores. These have since been taken into account and a demonetisation process recently initiated (see section 3.1.1.6).

Consumer impact

Wealth of the majority of consumers reduced. During hyperinflation, the values of currency were changing so rapidly that there was a drive by consumers to shift to inflation resistant investments, such as assets and the stock exchange. As noted above, the rapid devaluation was in fact a benefit to the holders of credit as the value of their obligation remained static while the value of their income base rapidly increased. However, following dollarisation the market for these assets has been oversaturated and consequently the ability to liquidate these assets at an expected price is constrained (stakeholder interviews, 2015). For those that maintained monetary assets, these either severely devalued during the hyperinflation period or following the conversion to dollarization (see section 2.2). In particular, as noted above, consumers that held Zimbabwean dollars only as recently as June 2015 have been able to convert this money into alternative tradeable currencies.

Unstable FSP landscape reducing trust. As hyperinflation ramped up, the population began to move away from functioning within the banks, particularly for payments, and rather transacted in cash due to worries of restrictions on access to deposits and the conversion rate applied by the banks (BFA, 2012). Furthermore, as noted above, insurance companies and retirement funds were also unable to provide value, thereby losing consumers' trust.

Restricted access to capital and liquidity dents the credit market. The combination of dollarisation, sanctions and Zimbabwe's debt default on international loans have severely restricted access to capital and liquidity for banks. Under a dollarised economy, with a fiscus unable to recapitalise the RBZ to act as lender of last resort, banks have limited sources of funding: deposits are restricted, exports and funding from the real economy are limited due

⁴⁹ The price attached to a share is based on the market's valuation of the underlying company. This valuation is based on a buyer's willingness to pay for the share of the company, a willingness that will be informed by information available on the company. Hyperinflation's impact is a pricing aspect that buyers will have taken into account, which allowed share values to shift with the market as this information was priced in.



to economic crisis, lines of credit are limited and were further restricted by sanctions, and portfolio flows into the stock market have also been limited. Remittances are currently the single largest flow of funds into the country (see section 2.2). It is therefore no surprise that banks' traditional intermediation role remains stunted. After strong initial growth, and in fact an over-extension of credit due to persisting inflationary expectations in the first years after dollarisation, funded income is declining (stakeholder interviews, 2015). Generally, Zimbabweans are poorer and less able to afford credit. Despite this, the difficulties in the corporate sector are forcing banks to go downmarket seeking to expand their personal loans – largely through payroll credit – and SME business (see section 9.1).

Transactional revenue not expanding. The surprise is that banks' transactional or fee-based revenue is still so low – at 37% of total income in 2013 and 2014. See Figure 36 above. The expectation is that banks would seek to increase fee-based revenue when the credit market declines. The decline in the banks' share in the payments market is well illustrated above. In both the transactions and remittances space, banks' share of customers is far exceeded by MMOs and in remittances money transfer operators (MTOs) eclipse banks. Note that although a number of banks also partner to provide money transfer services encashment, the FinScope question only relates to the originating MTOs, like Western Union, MoneyGram and Mukuru (see section 8.2.7).

Why are banks struggling to grow their fee-based revenues?

Banking infrastructure lagging. Banking infrastructure able to deliver the core encashment functionality grew only marginally during the past few years. For example, the number of ATMs increased by about 25% between 2012 and 2015. Over the same period mobile money agents increased almost tenfold (see section 9.3.2). One reason for this is that banks, already troubled by the economic crisis and impact of dollarisation, simply did not have the resources to extend their distribution infrastructure. At the same time they were, for a period, subject to voluntary price control. As discussed in Section 3, the Bankers Association of Zimbabwe entered into a Memorandum of Understanding (MOU) with the RBZ in February 2013 in which they agreed, amongst others, to cap cash withdrawal fees at 0.5% of the amount subject to a minimum charge of USD2.50 and to limit ATM fees to USD2 per transaction. Since the cost of importing US dollar cash exceeds 3% of face value, this effectively means that Zimbabwean banks agreed to reticulate cash below cost. The result is that banks could not price for cash and therefore had no incentive to increase their encashment infrastructure. The MOU was accordingly not renewed when it lapsed in 2014 and banks dramatically increased their ATM charges thereafter. However, during this period MMOs provision in the payments market was growing and it will be hard for them to regain market share. This sentiment was echoed in the qualitative study (2015), as illustrated in the quote that follows below:

"We do not need banks anymore because we now have EcoCash"

Farm worker, male, age unknown

Banks do not share infrastructure. The other reason for banks falling behind in the payments race is their failure to share infrastructure, as well as the general underdevelopment of the banking payment system. While there are systems in place for interoperability, effective interoperability has been not taken place. Further, the development of other payments



infrastructure is moving at a slow pace. System components that allow for efficient functioning, such as effective EFT or electronic clearing house, are not present. To compensate for this the market is currently making use of slower manual systems or systematically important payment system components, such as the Real Time Gross Settlement System (RTGS), for retail functions (see section 9.3). The result is that last mile POS and ATM infrastructure is mainly urban and attached to other bank infrastructure. Banks are also not sharing proprietary infrastructure, with the result that multiple POS devices crowd the counters of individual retailers when one device could be shared by multiple banks (stakeholder interviews, 2015). However, as discussed above, banks are waking up to the need to increase fee revenue. The RBZ is allowing banks to develop agent networks despite not yet having promulgated regulations to cover such a development. Three banks have already started developing an agent network. At the same time the RBZ has prohibited agent exclusivity for both bank and mobile money agents, thus preventing a potential uncompetitive practice (see section 3).

Access to mobile infrastructure creates concerns about anti-competitive practices. It is clear that MMOs, notably EcoCash, have joined battle with the banking sector for the personal financial services market in Zimbabwe. With this, has come claims of anticompetitive practices by the MMOs, notably higher access charges to banks for access to their mobile money platforms, preferential access for MMOs over banks at points of peak demand, and uneven service quality (see section 3). Of particular note is the claim of favouring one provider over another in regards to access to an independent infrastructure platform, as well as issues of low service quality that could be further detrimental to the banks' business model. An inability to operate efficiently could have a detrimental impact on the acceptance and broader retail use of the e-money payments modality as a whole. This is especially the case in an environment that is underserved and therefore would benefit from competitive interaction. The matter has now been referred to the Competition and Tariff Commission.

Commercial banks the only providers of cash. One of the biggest consequences of the adoption of the US dollar as the currency of choice for government and commerce has been its impact on the availability of cash. Figure 33 shows that the bulk of household savings happens at home and in informal groups. All of this is in cash. The ability of Zimbabwean adults to save, given their distrust in the banking system to keep their savings, is therefore dependent on the availability of hard currency cash, i.e. US dollars and, to a lesser extent, South African rand. Moreover, the ability to make use of the ATM network, current or extended, is also entirely dependent on the availability of US dollar notes of sufficient quality. A few commercial banks are currently the only importers of US dollar currency. From supply-side interviews it is understood, as noted above, that the cost of importing and reticulating such notes is in the order of 3% of face value. It is therefore no surprise that Zimbabwe is experiencing a severe cash shortage which acts as a serious inhibitor of household financial inclusion.

Microfinance industry not able to meet needs. Zimbabwe introduced a new Microfinance Act in 2013 to regularise the microfinance industry and with the hope that this sector could become a major force in extending financial inclusion. Of the more than 700 MFIs that were believed to exist at that time, only the minority registered (stakeholder interviews, 2015). In 2014 the RBZ recognised 148 registered MFIs. Although figures reported to the RBZ by MFIs suggest customer numbers in the order of 220 000, FinScope, which is self-reported, picked up only about 38 000 MFI clients, making MFIs by far the smallest of all credit provider categories (see section 8.2.4). Figure 33 also shows that MFI clients have the highest average



income of all the provider categories. The hope that MFIs would be a force for financially including low income Zimbabwean adults has therefore not realised. The MFI market is also quite concentrated with the top 10 MFIs controlling 71% of market by size of loan book (RBZ, 2014). Although the 473 MFI branches are predominantly urban, Figure 33 suggests a more rural customer base. This will increasingly be the case as MFIs, which have also moved heavily into the payroll lending market, find themselves squeezed by banks going down market. This forces them more and more into rural areas. To date MFIs have provided credit only. Two deposit-taking MFIs were registered in 2014, but had not yet commenced operations (see section 8.2.4). The fact that MFIs are not permitted to offer payment services limits their revenue potential in an environment where the biggest demand is for payments, and where the demand for formal credit is constrained.

Insurance sector under pressure, serving a limited set of needs. Zimbabwe's insurance sector survived the ravages of hyperinflation and subsequent dollarisation better than the banking sector. The balance sheets of the insurers, containing as it did a majority of non-monetary assets, remained largely intact. However, to date there has been no mandated conversion of benefit values into US dollars, although a number of insurers, such as Old Mutual, have done their own conversions.⁵⁰ The result, as discussed above, is that many Zimbabweans lost their confidence in life insurance. In 2014 only 3% of gross written premium for life insurers consisted of voluntary whole life products. The bulk of life insurers' income comes from fund management business for compulsory pensions and employment-based group insurance schemes. The major exception, and only substantial growth area at this point, is funeral business. Funeral insurance in Zimbabwe delivers only benefits in kind, namely funerals. They therefore never stopped delivering benefits throughout the economic turmoil. Thus Zimbabwean adults trust them and 29% of gross written premiums of life insurers now consist of funeral policies. Compulsory motor vehicle insurance remains the single largest non-life premium written. The non-life industry will continue to be under pressure as long as the difficult macroeconomic conditions prevail (see section 9.4).

Bulk of savings and credit needs met by communities themselves. Figure 33 at the start of this discussion shows that most of the needs that low income Zimbabwean adults have for savings and credit are met not by formal financial service providers, but by communities themselves. The figure disaggregates this into family and friends and informal institutions. As Zimbabweans have fallen through the cracks of the formal sector, they have turned to each other for support. This mutual support takes many forms, but in all cases it is the primary way in which Zimbabwean adults deal with uncertainty and find ways to cope with unexpected risk events. The bedrock of this support is the extended family. Many respondents in the qualitative demand-side research had a parent or parents in rural areas for whom they send money, and most of them used EcoCash to do this. Family is also the first port of call for loans in times of trouble, often without the obligation to repay. Furthermore, most savings happen at home under the proverbial mattress (see section 9.2).

Community organisations fulfil a wide variety of needs for financial services. As can be seen from Figure 33, informal groups fulfil credit, savings, insurance and remittance needs. For example, in return for a small monthly contribution churches provide peace of mind that members will receive assistance during difficult times. This includes, amongst others,

⁵⁰ The president appointed a commission of enquiry in July 2015 to explore the value of illiquid assets held by retirement funds and insurance companies at the time of dollarisation (The Herald, 2015). The purpose of this is to determine whether a fair calculation of the value of their financial products took place at that time. The purpose of this commission is to restore trust in the insurance sector so that Zimbabweans will once again be prepared to entrust insurers with their risk mitigation needs.



assistance for burials, providing loans, and assisting to pay for medical treatment. This support is not unconditional, and if members fail to make their contributions they forfeit the support in due course. Other informal groups include rotating savings societies, also known as Mukando or kufushwamari, which are cumulative savings societies where members can borrow money at no interest, and burial societies. These can either be prepaid or be a group of mostly women that take collections in the neighbourhood when there is a death (see section 9.2).

Meeting the needs of the diaspora. As pointed out in Section 2, the equivalent of almost a third of the adult Zimbabwean population now find themselves outside the country with a strong need to send money back to friends and family inside the country. While most of these remittances flowed across the border informally just five years ago, the bulk of remittances now flow through formal channels. This signals a major advance in the ability of the formal financial sector to meet the financial services needs of Zimbabwean adults. Whilst banks and MTOs play a significant role in providing the Zimbabwean leg of the remittance, a massive share is already held by EcoCash, who is also a registered ADLA (authorised dealer with limited authority) and thus able to partner with approved international money transfer organisations and to trade in foreign exchange. Besides the need to send cross-border remittances, Zimbabwean banks and insurers have recognised that Zimbabweans abroad also have a need for insurance and investment services that they can supply. This has led to the establishment of the ZimSelector⁵¹ platform in which a number of prominent banks and insurers have partnered to sell financial services directly to members of the diaspora (see section 9.3).

8.2. Provider-specific overview

Building on the overview of issues in the previous sub-section, this sub-section explores each of the major financial service provider categories to provide an overview of the players in the category and scope their willingness and ability to provide financial services. Product market-specific detail follows in Section 9 below.

8.2.1. Banks

Large banking sector with few dominant players. 17 banks (including 14 commercial, one development, one merchant and one savings bank) and three building societies were active in the market in 2015 (RBZ, 2015). As shown in Figure 38 below, the top five banks hold 60% of the overall market share of assets. It is notable that these banks are all majority foreign owned aside from CBZ, which holds an equal split of ownership between foreign, local and government entities.

⁵¹Further information available at: <https://www.zimselector.com/>

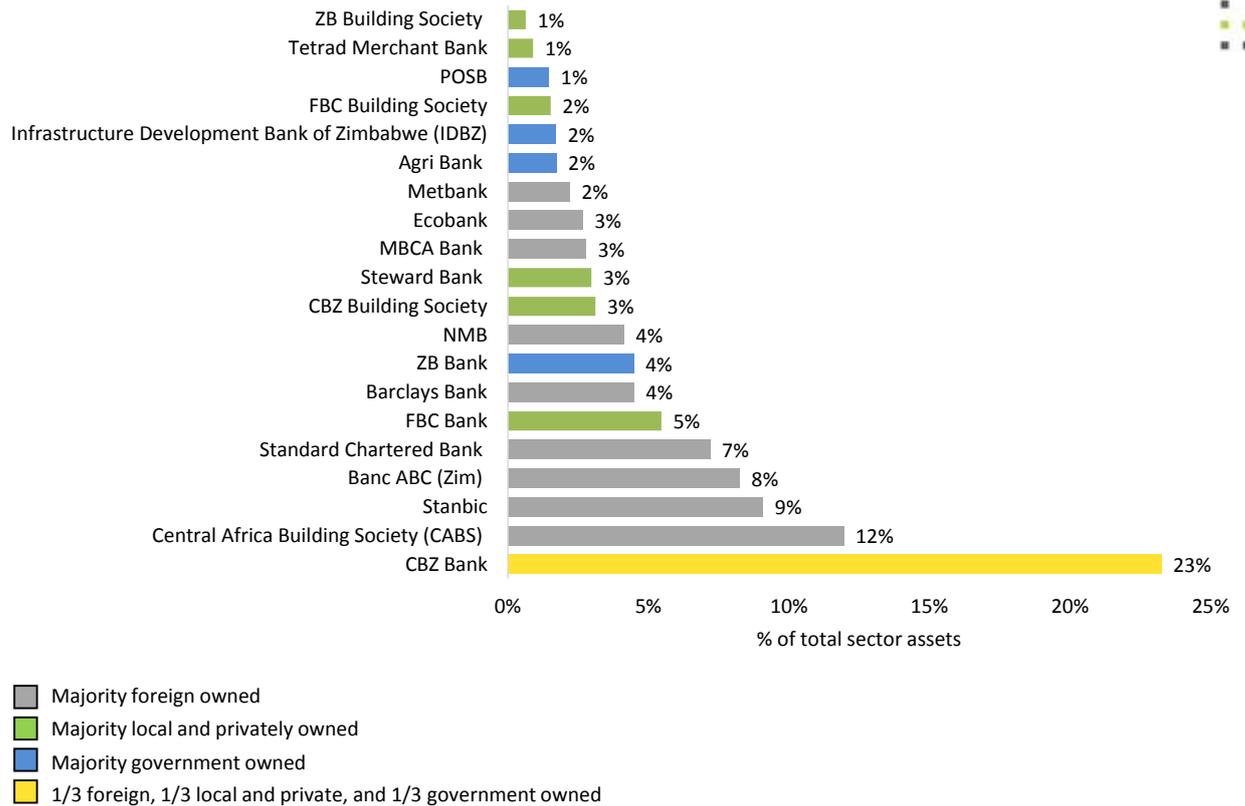


Figure 38: Bank market share by assets (2014)

Source: RBZ, 2014

Declining profitability. As shown by the figure and table below, the banking sector achieved a net profit of USD50.8 million for the year ended 31 December 2014 (RBZ, 2015). Although this is a significant improvement from 2013, it appears to continue a declining trend since 2011 and in absolute terms is sitting at a low base. The profitability ratios of return on assets (ROA) and return on equity (ROE) mirror this trend. Following an increase between 2010 and 2011, these ratios have been on a downward trend with a small positive recovery between 2013 and 2014. This indicates a declining efficiency in management of assets and shareholders' equity to produce profits. A total of 14 out of the 19 operating banking institutions at the time recorded profits for the year ended 31 December 2014 (depicted in Figure 39 below). As noted by RBZ (2015: pp. 23), "the losses recorded by the other banking institutions are attributed to high levels of non-performing loans, liquidity constraints and incapacity to generate sufficient revenue to cover the high operating expenses"

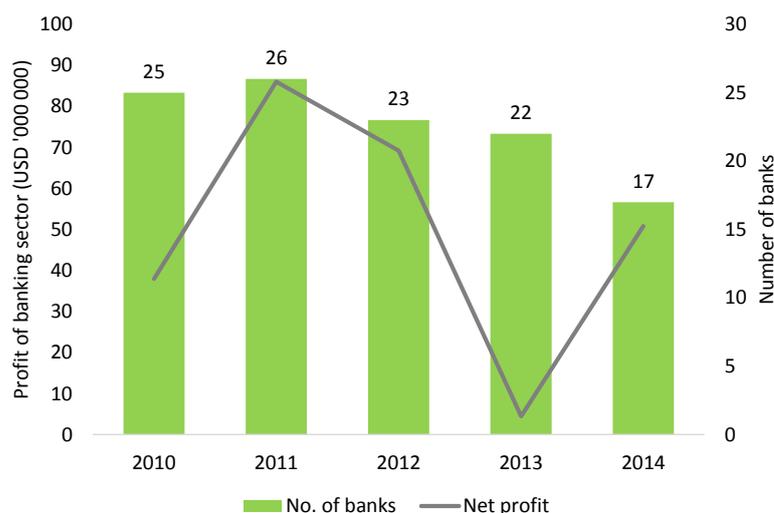


Figure 39: Number and profitability of banks (2010-2014)

Source: RBZ, 2015

	Dec 2010	Dec 2011	Dec 2012	Dec 2013	Dec 2014
Net profit	\$37.95million	\$86million	\$69.23million	\$4.46million	\$50.84 million
ROA	-2.02%	2.43%	1.64%	0.06%	0.92%
ROE	0.57%	15.13%	9.17%	0.51%	5.37%
	Dec 2010	Dec 2011	Dec 2012	Dec 2013	Dec 2014
Capital adequacy ratio (CAR)	27.34%	13.51%	13.07%	14.01%	17.33%
Loans to deposits	86.25%	90.59%	93.27%	102.36%	78.94%
Liquidity ratio	70.88%	56.80%	55.70%	40.57%	39.34%

Table 5: Profitability indicators for the banking sector (2010-2014)

Source: RBZ, 2015

Two thirds of the market fulfilling solvency requirements. The banking sector's core capital was USD811 million at the end of 2014. Fourteen out of 19 banks held the required minimum core capital requirements at this time (RBZ, 2014). Despite some banks in the industry failing solvency requirements, the industry capital adequacy ratio is showing an upward growth trend since 2011 (detailed in Table 5 above). It has remained above the required minimum regulatory capital adequacy ratio of 12% across the period. While the liquidity ratio has remained above the regulatory minimum of 30% for the industry, at the end of 2014 nine banks were not compliant with this requirement and the industry has moved from an average liquidity ratio of 71% in 2010 to 39% in 2014.⁵²

Several banks are under liquidation and/or closing. As a result of solvency issues, there has been a decline in viable banks operating in the market. In January 2015 there were three distressed banks (Metbank, Afrasia Bank Zimbabwe Limited and Tetrad Investment Bank) (RBZ, 2015).⁵³ Further, at this time a total of six banks were under liquidation (Kingdom Bank

⁵² As said by RBZ (2014), "The measures being taken by non-compliant banks to regularise their liquidity positions include recapitalization, and balance sheet restructuring entailing among other measures, fixed asset disposals, and curtailment of loan growth." (pp.24)

⁵³ The RBZ has noted that these banks were of low systematic importance at the end of December 2014. At this point in market shares of 4.46%, 4.18% and 4.97%, respectively, in terms of loans, assets and deposits



Limited, Genesis Investment Bank Limited, Royal Bank, Allied Bank, and Trust Bank) and two had recently closed (Interfin Banking Corporation Limited and Capital Bank) (RBZ, 2015; RBZ, 2015).

RBZ intervening to resolve banking crisis. At the beginning of 2015 the RBZ stated that their objective is to have a banking sector free of distressed banks by June 2015 (RBZ, 2015). The main cause of the crisis identified by RBZ is high credit risk (reflected in the high NPLs discussed in the previous sub-section) and liquidity constraints. The RBZ has implemented the following measure to resolve the banking crisis:

- **Zimbabwe Asset Management Corporation (ZAMCO).** ZAMCO was established in August 2014. The purpose of the corporation is to cleanse banks' balance sheets of toxic non-performing loans assets (see Box 7 below).
- **Central credit reference system.** A credit reference system is in the process of being established to reduce risk from information asymmetry in the market. In January 2015, the RBZ stated that the Credit Registry Department had been created as part of the Bank Supervision Division. The unit will both coordinate the collection of credit information from across formal credit providers and maintain the databank for the credit registry. Further, proposed amendments to the Banking Act provide a legal foundation for the establishment of credit reference bureaus and a credit registry within the Reserve Bank (RBZ, 2015).
- **Amendments to the Banking Act.** A number of forthcoming amendments to the Banking Act are intended to improve corporate governance, increase operational transparency, create civil and criminal liability for reckless conduct (abuse of depositors funds, negligence or recklessness conduct of banking business, and breach of statutory duties), establish credit reference bureaus and a credit registry, regulation and monitoring of bank holding companies, increase cooperation between supervisory entities, bring unsupervised banking institutions under the RBZ (namely, the Small & Medium Enterprises Development Corporation (SEDCO) and the Infrastructure Development Bank of Zimbabwe (IDBZ)), empower RBZ to deal with bank resolution, and realign banking laws to remove any inconsistencies (RBZ, 2015). As at January 2016, the amendments had been passed in both Houses of Parliament and now wait on Presidential assent (RBZ, 2016).
- **Afrades interbank system.** The system was launched in March 2015. The purpose of the system is to support liquidity in the market (see Box 7 below).
- **Bond coins and demonetisation.** The RBZ introduced bond coins in December 2014 to assist with ensuring price competitiveness by resolving issues with lack of foreign currency small change (RBZ, 2014). Further, as discussed in the sections above, the RBZ has started the process of demonetisation in an effort to promote consumer and business confidence by providing credibility to the multiple currency system, as well as legally retiring the local currency (RBZ, 2015).
- **Tiered banking system:** In the June 2014 Monetary Policy statement, the RBZ announced a three tiered banking system with differentiated capital requirements. The policy intent is to provide banks struggling to meet the existing capital requirements with an opportunity to meet reduced requirements commensurate with reduced functions. Banks have until 2020 to comply with any one of the following capital requirements:



Segments	Type of institution	Capital requirements		Activities
		Current	Proposed	
Tier 1	Commercial banks & all foreign banks	\$25 million	\$100 million	Core banking activities plus additional services
Tier 2	Commercial banks, merchant banks, building societies, finance & discount houses	\$25 million	\$25 million	Core banking activities only
Tier 3	Deposit taking microfinance banks	\$5 million	\$10 million	Deposit taking microfinance activities

Table 6: Proposed banking tiers

Source: RBZ, 2014

Box 7: Overview of institutions created to assist liquidity: ZAMCO and Afrades

Zimbabwe Asset Management Corporation (ZAMCO)

The Reserve Bank of Zimbabwe (RBZ) created the Zimbabwe Asset Management Corporation (ZAMCO) in July 2014 to take over non-performing bank loans in Zimbabwe’s banking sector (ZAMCO, 2015). ZAMCO, which will have a proposed lifespan of 10 years, will only purchase loans backed by security. It will fund the acquisition of NPLs using various public and private funding sources, including long term debt instruments issued by government and investment by domestic and international pension funds. RBZ (2015) stated that during the first phase that ZAMCO acquired USD157 million of NPLs.

The process for recovering loans is a phased approach that will initially focus on loans secured by immovable properties before moving onto loans that are secured by other types of collateral. Once debt is purchased, it is classified as either a viable or non-viable loan. Viable loans are resolved either through (i) debt restructuring or (ii) operational restructuring. Non-viable loans will be resolved via (i) sale of foreclosed properties, (ii) negotiated settlement or discounted pay-off or (iii) liquidation (ZAMCO, 2015).

Afrades

For the purposes of creating the structures for an inter-bank trading market, the RBZ, with the support of African Export-Import Bank (Afreximbank), created Afrximbank Trade Debt-backed Securities (AFTRADES) in March 2015. The facility’s overall policy objective is: to improve the circulation of liquidity within the banking sector to mitigate against bank failures as a result of temporary liquidity challenges (RBZ, 2015). The Ministry of Finance and Economic Development will act as the facility’s guarantor and liquidity support provider, but only up to agreed levels, with the RBZ providing the infrastructure necessary for the operations and management of the facility (Afreximbank, 2014). Additionally, the RBZ will also be in charge of the approval of the regulatory requirements by the participating banks. Banks that are solvent and have no problems of viability will be eligible for the facility (Afreximbank, 2014).

Afrades’ target is to generate funds up to USD200 million. Initially the facility had USD100 million invested by five banks, but this reportedly increased to USD136 million after confidence in the system increased (RBZ, 2014; Zwinoira, T., 2015). By July 2015, three banks had borrowed from the facility and total disbursements under this facility for a tenure of 180 days amount to USD84 million (RBZ, 2015).



Access to banks concentrated in urban areas. Bank branches are mainly located in urban areas. ATMs often co-locate with branches and consequently, while there is potential for these channels to enhance the geographic reach of banks, it is not currently being capitalised upon. As shown by Figure 40 below, the number of POS devices is rapidly growing. This is an important infrastructure component to support driving digital transactions and therefore requires growth in the market for banks to achieve the aim of increasing non-funded income. The use of bank agents and links to mobile money networks will drive the outreach of POS devices, including geographic outreach to rural and peri-urban coverage. Banks are supplying POS for both their bank agents, as well as MMOs that are linking their mobile transactions to POS devices (e.g. Steward Bank is rolling out POS devices to support EcoCash merchants) (stakeholder interviews, 2015). Banks have also introduced online and mobile banking in a bid to increase widespread access points for customers.

8.2.2. Mobile money operators (MMOs)

Mobile networks entering financial services market to capitalise on existing reach. Mobile penetration in Zimbabwe reached close to 100% of the population at the end of 2014 (POTRAZ, 2014). Mobile network operators (MNOs) began to capitalise on this growing reach by extending into the financial services market. 2011 saw the introduction of EcoCash and OneWallet mobile money offerings. In 2014, the market grew further with the entry of TeleCash and NettCash (Econet, 2011; Net One, 2011; Kabweza, 2014; Telecompaper, 2014). MNOs' existing client reach and distribution network enables them to move into financial services at low additional cost, especially by linking their infrastructure to financial service providers.

Dramatic growth in the mobile money market. The market has responded dramatically to the advent of mobile money. Customer numbers grew by 102% between 2013 and mid-2015 to a total of 6.2 million subscribers. This accounts for 52% of the nearly 12 million active mobile subscribers in the same time period. As shown by Figure 40 below, there has been a rapid growth in values and volumes of mobile transactions over the past few years, as compared to the volumes of POS and ATM transactions, which have largely flat lined. By 2014, the value of transactions through the mobile channel surpassed that of the ATM channel. Furthermore, capital flowing through the system grew by 81% to USD 1.4 billion by the end of 2014 (POTRAZ, 2015; POTRAZ, 2014; POTRAZ, 2013).

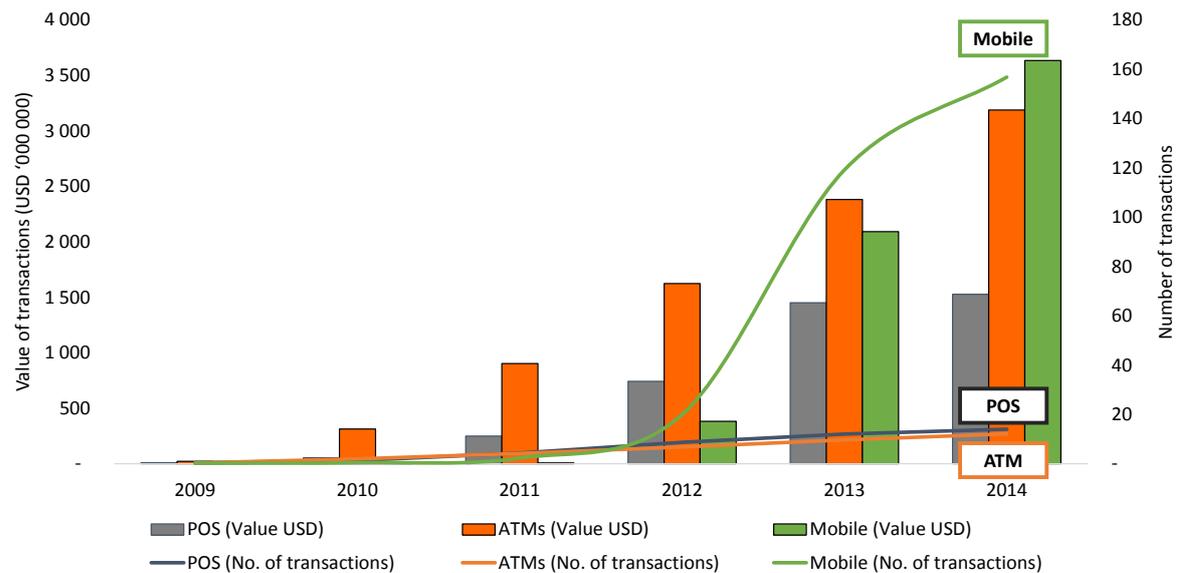


Figure 40: Transaction values and volumes of main payment channels (2009-2014)

Source: RBZ, 2015

Aggressive expansion of mobile money agent base key to adoption. Agents are necessary to facilitate cash-in and cash-out transactions. The success of a mobile money offering is therefore dependent on the reach and effectiveness of its agent network. Agents are adults or third party entities, often local unnetworked retailers that provide mobile money service offerings as one of their revenue lines. This network is growing rapidly. In 2013 there were 9,169 agents, but by the end of 2014 this had grown by 61% to 23,379 agents (POTRAZ, 2014).

Different institutional models. There are two distinct institutional arrangements for offering mobile money. For the mobile money operators (MMOs) operating under mobile network operators (MNOs), namely EcoCash, TeleCash and One Wallet, the products are provided from a strategic business unit within the MNO group, while NettCash operates as a standalone company agnostic of the MNO providers (Econet Wireless, 2016; Telecel, 2016; One Wallet, 2016; NettCash, 2016).⁵⁴

One dominant player. In mid-2014 EcoCash held 89% of the market share in terms of clients (2.9 million adults) (FinScope, 2014). This is supported by POTRAZ’s assessment of market share across three of the MMOs, with Econet holding 75% of the mobile money clients midway through 2015 and 98% of deposit values at the end of 2014 (POTRAZ, 2014; POTRAZ, 2015). This is illustrated in Figure 41 below.

⁵⁴ Upcoming regulation in the form of an electronic payments guideline is likely to enforce that any mobile money operator has to become a standalone subsidiary company.

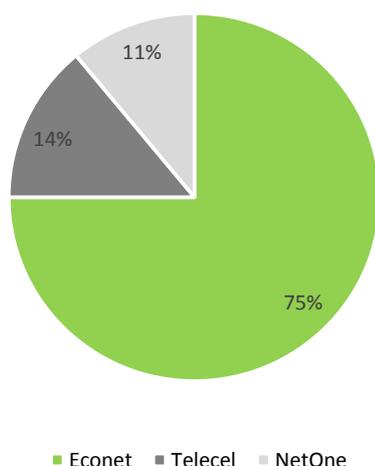


Figure 41: Market share of mobile money subscribers (total)

Source: POTRAZ, 2015

Evolution of product offering beyond payments. All providers started by offering transactional and money transfer payments products and these remain the main business model drivers. The payment offerings have grown to include a wide range of voucher purchases, bill payments, merchant payments (both via mobile device and linked debit card), bulk payments and both domestic and internal remittance links. Airtime payments and remittances remain the most used services. Beyond payments, EcoCash is taking the lead in expanding the service offering to savings, credit and insurance. EcoCash stands out as a unique model illustrating telecommunications convergence in financial services. What began as a subsidiary of Econet Wireless Group that offered person to person (P2P) payments is now a fully-fledged financial services provider that offers payments, credit, savings and insurance products in partnership with Steward Bank, another wholly owned subsidiary of Econet Wireless Group (EWG).

Bringing on board a bank and insurance subsidiary to broaden product suite. MNOs, by regulation, cannot operate mobile money services unless they create a subsidiary licensed as a mobile money operator (MMO). Hence, EWG established and MMO, EcoCash. The license allows money transfer services, but MMOs are precluded from providing savings, loans or insurance. In a strategic move to become a fully-fledged financial services provider, EWG then purchased Steward Bank. In so doing, Steward Bank became an enabler that allowed EcoCash to expand its service offering. Steward Bank effectively intermediates mobile money deposits and benefits through an expansion of its client base, given the Econet 9.2 million strong subscriber base as reported in 2015 (Econet Wireless Group, 2015). The EcoCash mobile wallet offering provides consumers with money transfer services, bill payments, savings through the EcoCash Save Account, and credit through the EcoCash Loan Account. The interest-bearing savings account and loan account are provided in conjunction with Steward Bank. In addition, as will be discussed, Econet has registered an insurer, Ecolife, to provide an insurance offering on the EcoCash platform, named EcoSure. This follows an earlier model, since discontinued, where Econet partnered with an insurer and a technology platform to provide a loyalty benefit insurance offering to its customers (see section 9.4). Thus the Econet group has grown to include both a bank and an insurer.



Convergence is creating particular supervision considerations. With the emergence of EWG as financial services group comes particular regulatory and supervisory considerations, including the need for coordination. All companies need to be effectively regulated and supervised; yet the parent company is not a financial institution and therefore does not fall under financial service supervision. The RBZ’s mandate is limited to Steward Bank and EcoCash, and Ecolife is regulated by the insurance supervisor (IPEC). Neither regulator has jurisdiction over Econet.

Declining MNO profitability. As discussed above, the mobile money operators largely exist within MNOs. These institutions saw a dip in profitability in 2014 with revenues decreasing by 11% between 2013 and 2014 to USD 1.1 billion (POTRAZ, 2014). This was driven by a decline in usage across all product lines, despite growing client numbers. A main cost driver for the mobile money business model is the set-up of their networks, both in terms of infrastructure and the recruitment and management of agents (stakeholder interviews, 2015).

8.2.3. Insurers and retirement funds

8.2.3.1. Insurance companies

Concentrated industry dominated by few large players. The industry has 45 insurance companies (including 11 life assurers, 9 funeral assurers and 25 non-life companies) and 29 medical aid societies. In addition, there are 11 reinsurers, 31 registered brokers and five reinsurance brokers:

Type of Institution	Number of entities
Supervised	
Life	11
Funeral	9
Non-life	25
Life reinsurance	2
Non-life reinsurance	9
Insurance brokers	31
Reinsurance brokers	5
Total	92
Unsupervised	
Medical aid societies	29
Total	29

Table 7: Overview of supervised and unsupervised institutions

Source: IPEC, 2015

The figure below indicates that, as at September 2014, the biggest three funeral assurers accounted for 82% of the industry’s net premiums written (NPW) (IPEC, 2014). In the same vein, Old Mutual, the largest life assurer, held 51% market share by NPW. Together with Nyaradzo and FML, they account for 83% of the market. Similarly the medical insurance sector is dominated by three health insurers out of 29 that hold 80% of market share by premiums. The non-life insurance sector is less concentrated. The top 10 companies out of 31 accounted for 89% of gross premium income.

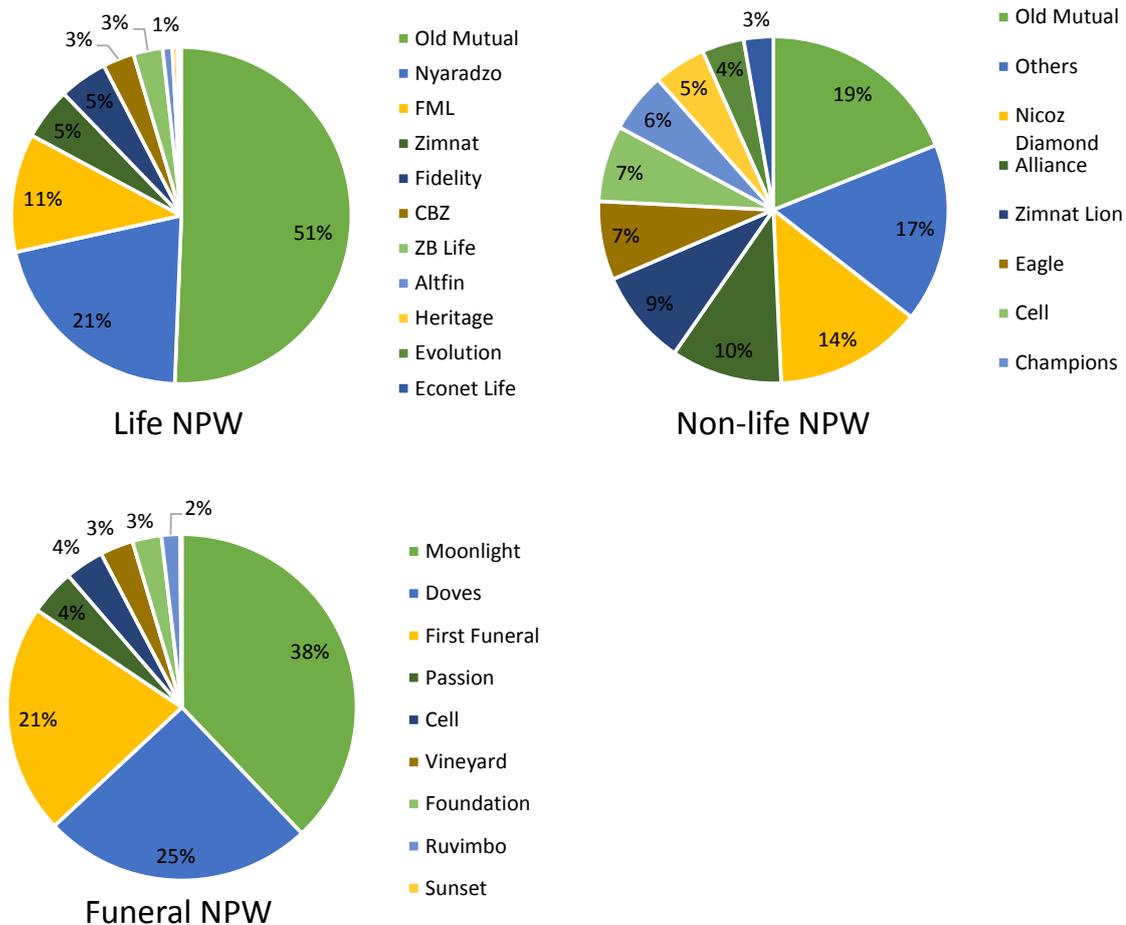


Figure 42: Insurance industry players market share by net premium written (NPW)

Source: IPEC industry consultations and published reports.

Funeral insurance seen as main growth area. General assurers accounted for 39% of gross written premium (GWP) in 2014, while life insurers accounted for 36% and funeral insurance for 25%. As further discussed in the insurance product market overview in Section 9.4, funeral insurance is gaining in prominence as an insurance class offering, also amongst life insurers. Stakeholder interviews indicated funeral insurance as the main growth area for the sector as demand for funeral insurance is inelastic, unlike the other insurance classes, which are dependent on a declining corporate sector.

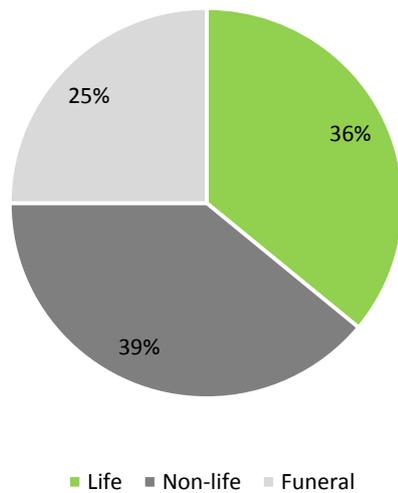


Figure 43: Insurance sector market share by GWP

Source: IPEC 2015 published industry reports.⁵⁵

Hyperinflation destroyed policyholder value. Hyperinflation wiped out benefit values and pension values, but not the underlying non-financial assets held by insurance companies. A number of insurers had converted benefits and pensions into US dollars. This left some insurers with large asset holdings and very limited liabilities. At the same time, the vast majority of policy holders and pensioners lost the value of their policies and pensions after dollarization, thereby severely eroding consumer trust in the industry. Until July 2015, no attempts were made to rectify this. One insurer attempted to revalue policies in United States dollar terms based on a spot rate that resulted in miniscule policy pay-outs. No other insurers made attempts to compensate policy holders. As discussed in Section 8.1, this has led to the establishment of a Commission of Enquiry into the conversion process.⁵⁶

Services in-kind sheltered funeral assurers. The one exception is funeral insurance. Funeral assurers and life insurers whose obligations were in the form of tangible funeral services were able to continue uninterrupted and maintain the trust of consumers. This explains its prominent and growing role in the market, as unpacked further in Section 9.4.

Distribution largely through traditional channels. For the non-life business, there are 31 registered brokers and 500 agents. 42% of the GWP for 2014 was generated by brokers, the rest is accounted for by agents and client walk-ins to branches (IPEC, 2014). The life industry has 1014 registered agents. Eighty six per cent of these are adults (869 agents) and 14% are corporate entities (145).⁵⁷ These corporate agents include seven commercial banks and the postal network (Masiyiwa, 2014). No instances of alternative distribution, for example through retailers, were picked up in the research. The one notable alternative distribution innovation is the EcoSure offering on the mobile money platform, offered via the Econet Group's insurance subsidiary, Ecolife. More details are provided in Section 9.4

⁵⁵ Funeral insurance market share includes the funeral business generated by funeral assurers and life insurers.

⁵⁶ In July 2015, through Statutory Instrument 80 of 2015, the President of Zimbabwe established the Commission of Inquiry into the Conversion Process used in the Conversion of Pensions and Insurance Benefits from Zimbabwean dollars to United States dollars.

⁵⁷ This info comes from a request to IPEC in 2015



8.2.3.2. Retirement funds

High concentration of funds, but low growth in number of institutions. There are 179 funds active in the market. Fifteen of these are self-administered funds (including the national pension fund) and the remaining 164 funds are managed by either life assurers or fund administrators. Four life assurers manage 31 funds and four fund administrators manage 133 funds. In line with the struggling corporate sector, growth in funds has been stagnant, with only five new funds introduced since 2012 (IPEC, 2012).

Self-administered funds are the dominant provider. As shown by the figure below, self-administered funds hold the highest market share by both clients and assets. Seven of the self-administered funds control 57% of the assets in the market.

	Fund administrator-administered fund	Insurer-administered funds	Self-administered funds
Client numbers	78 842	28 375	357 747
Assets (USD '000)	511 500	309 056	1 284 626

Figure 44: Market share of retirement funds (by assets and clients)

Source: IPEC, 2014

Defined contribution funds the preferred format post-hyperinflation. The majority of the market runs defined contribution schemes. This is as a result of the hyperinflation period where defined benefit schemes became impractical as the defined amounts lost real value over short periods of time. Further, defined contributions pose less of a risk to the industry in an unstable capital environment (stakeholder interviews, 2015).

Capital markets and property the main assets classes. Self-administered funds hold a far higher proportion of their portfolio in property than the other two funds types, which favour capital markets. Investment for pension funds is limited to domestic instruments and therefore these allocations are limited to what is available in the market. In 2014, across the funds only 4% were invested in prescribed assets. This is below the 10% regulatory minimum (IPEC, 2014). The limited availability of government debt instruments available on the primary and secondary markets and low liquidity on the capital markets create a difficult environment to fulfil these requirements.

8.2.4. Microfinance institutions (MFIs)

Relatively large MFI industry, but FinScope paints a different picture. There were 147 registered MFIs in the market midway through 2015. This is a small reduction from the 150 that were active in 2012 (see Table 8 below). While there are many players active in the market, the loan book is dominated by a small number of players. Midway through 2015, the top 19 MFIs controlled 86% of market share in terms of loans. The largest MFI controlled 19% of this book (RBZ, 2015).



	2012	2013	2014	Q2 2015
Licensed MFIS	150	146	147	147
No. of clients	96 749	150 188	205 282	224 300
No. of loan accounts	245 847	162 221	257 542	281 547

Table 8: MFI industry statistics (2012-Q1 2015)

Source: RBZ, 2014; RBZ, 2015

The table above indicates there to have been about 200 000 MFI clients in 2014. The nationally representative FinScope (2014) consumer survey however only recorded a current client base of 38,000.

Growing, high risk portfolio. Regulation allows for deposit-taking MFIs (at higher capital adequacy requirements), but only during the course of 2015 have two MFIs converted into deposit-taking entities (RBZ, 2015) and at the time of writing they were not yet active in the deposit-taking market. MFI business is therefore still driven solely by the extension of credit – both on an individual and group basis (see section 9.1 **Error! Reference source not found.**). As shown by figure below, this business line had slow but steady growth from 2012 to 2015. The risk related to this revenue line has been decreasing from a high portfolio at risk in 2012 (26%) to 13% in 2015. However, while this decrease is positive, the portfolio at risk is still at high levels when compared to the international benchmark of 5% (RBZ, 2014).

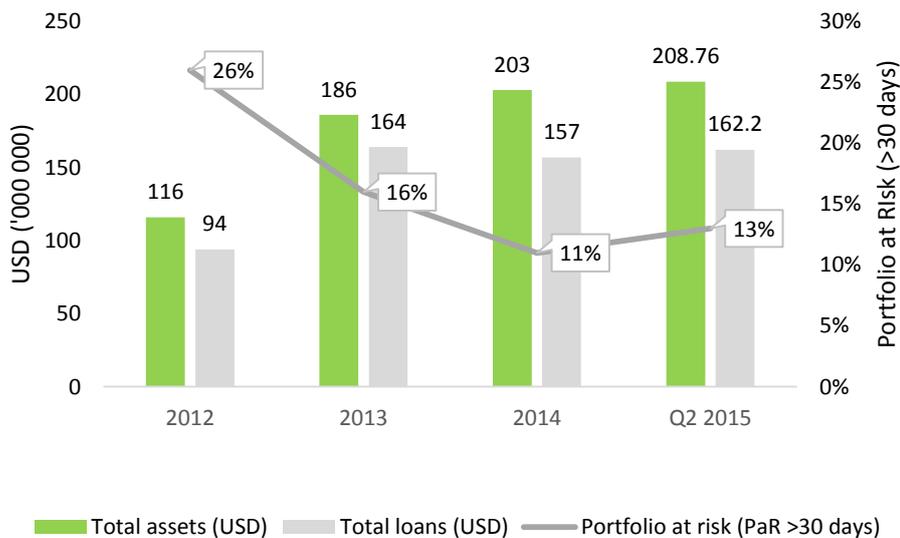


Figure 45: MFI industry performance (2012-Q1 2015)

Source: RBZ, 2014

A number of factors threaten the MFI industry:

Increasing competition from banks. As noted in Section 8.1, the demise of the corporate sector means that banks are increasingly moving into the space of the MFIs, squeezing their traditional market.



Least trusted, not widely known. Furthermore, the FinScope (2014) survey data as outlined in Section 8.1 shows that MFIs are the least trusted among the various types of financial institutions. Even more significantly, more than 50% of adults have never heard of MFIs.

Expensive funding sources. Funding is predominantly sourced from private shareholders and banks (stakeholder interviews, 2015). Additionally, the Zimbabwe Association of Microfinance Institutions (ZAMFI) provides funding at concessional rates from an apex fund sponsored by DFID and Danida. The size of this facility is limited to USD 5 million currently (stakeholder interviews, 2015). The implication of this is that debt financing is mainly provided by commercial banks as more expensive source. This is a key cost driver for MFIs. The RBZ (2014) states the lack of affordable long-term financing for MFIs as a key constraint for the sector.

Geographic physical presence, but largely rural client base. MFI distribution occurs primarily through branches. Eighty per cent of MFI branches are based in the two major urban centres of Harare and Bulawayo, with a strong concentration in Harare (RBZ, 2015). Yet the client base, as shown in Section 8.1, is predominantly rural. MFIs allow for payments via a number of channels, namely, cash, cheque, bank transfer and mobile wallet transfer. The introduction of bank transfers and mobile money payments assists with remote payments. Further, some MFIs are accepting online and mobile money based applications for loans in a bid to reduce transaction costs and travel costs from and to the branch.

8.2.5. Informal moneylenders

Exact numbers unknown, but serving relatively small client base. The MFI discussion above suggests that there are numerous unregistered MFIs in Zimbabwe, referred to as informal money lenders. Around 51 000 adults noted holding credit from these informal moneylenders at the time of the FinScope 2014 interview and a further 140 000 adults had previously accessed credit from this source (FinScope, 2014). Such lenders are colloquially referred to as a “Chimbadzo”. The qualitative research indicated that moneylenders tend to be community members that will lend funds at strict and very high interest rate terms.

8.2.6. Community groups

Financial services provision via formal and informal groups. Group based financial services or “localised” financial services can occur in both a formal and informal manner:

- **Formal:** *SACCOS serving a very small client base.* In Zimbabwe formal group offerings occur via Savings and Credit Cooperatives (SACCOS). These are defined under the Cooperative Act (2001) as a collective society where all members work for the society and it is jointly owned by all. There are 68 formally registered SACCOS, between them with only 7 778 members (stakeholder interviews, 2015). There is a much wider base of non-financial cooperatives in the market (~9000 registered cooperatives).
- **Informal:** *savings groups and “rounds” fulfil an important function.* 30% of adults (2 075 000 adults) in Zimbabwe at present or in the past have made use of informal savings groups (FinScope, 2014). There are two main types of informal savings groups operating in Zimbabwe:



- **Internal Savings and Loans (ISLs) or Village Savings and Loan Association (VSLA):** These are small groups of people (10-20 people on average) who will meet at a regularly agreed time period to save together and take small loans from those savings. In the ISL model these loans are only distributed within the group (supply-side interviews, 2015). This savings will take place for a defined period, on average for one year, after which the accumulated savings and the loan profits are distributed back to members. (VLS Associ.,2015)
- **Rotating Savings and Credit Associations (ROSCAs), called mukando or “rounds”:** This is an informal group that is often self-formed by people connected by business or local community ties. The groups agree on a regular time period in which to meet and save a pre-determined contribution amount. These contributions are collected by the group and then distributed in a lump sum to one member on a rotational basis. The cycle (or round) can be repeated as needed (qualitative study, 2015).

Informal groups operate on a low return and cost model. As described above, the informal groups operate on a mutual basis and therefore all returns are divided equally among members. Returns are generated through investing deposits in on-lending of funds. Neither of the two types of groups described above on-lend funds outside of their groups. For the ROSCA model, there is little opportunity to lend funds out due to the rotating pot. ISLs only on-lend within the group and therefore any interest paid is effectively an additional savings contribution (stakeholder interviews, 2015). The groups operate in their local community and therefore do not accrue high infrastructure or running costs. The basic costs relate to the meeting of the groups and storage of deposits – the balance that is not distributed or lent out is generally kept in cash.

8.2.7. Money transfer operators (MTOs)

Money transfer operators refer to entities licensed to transfer money: either across border or domestically. Different providers can form a partnership to handle either sending or receiving.

A tiered system for cross-border transfers. As discussed in Section 3, the RBZ updated the regulatory framework for money transfer agencies to introduce the Authorised Dealers with Limited Authority (ADLA) framework in April 2015. Money Transfer Agencies and Bureaux de Change are now called ADLAs in line with this framework. The ADLA framework has three tiers:

1. Tier 1 carry out both inward and outward international money transfers/remittances including buying and selling of foreign currency
2. Tier 2 carry out inward international remittances only, including buying and selling of foreign currency.
3. Tier 3 carry out buying and selling of currency only

Large number of MTOs in the market, reach extended by partnership. There are 33 registered ADLAs in Zimbabwe at present (see Appendix C for further detail). As described above, these are registered entities in the Zimbabwean market that can partner with foreign providers and therefore link into a much broader universe of global providers (for example Western Union, MoneyGram or Mukuru). Notably, Econet Wireless Group has been registered as a tier one ADLA with the capacity to do cross-border remittances or partner with foreign providers. Just over 50% of the registered ADLAs in the market have branches located in the main cities⁵⁸.

⁵⁸ Based on information provided directly from the RBZ in 2015.



Beyond this, each province has on average 21 branches. As discussed above, the MTO model functions on partnership and this element can extend to the distribution landscape. Many of the MTOs have partnered with entities such as banks, MMOs, the post office and retailers (stakeholder interviews, 2015). This extends their effective footprint much further than the 360 branches registered directly under the ADLAs.

Formalisation trend. Indications from the supply-side consultations are that remittances in Zimbabwe are increasingly formal. This has been enabled by the ADLA legislation as well as, as discussed in Section 3, recent regulatory changes in South Africa to facilitate access by migrant workers to the formal financial sector. Domestically, the introduction of low cost formal channels in the form of MMOs has created competition for informal channels. However, qualitative research indicated that informal channels were still in demand in remote areas not covered by formal providers or when the adoption of a technology based product was a barrier.⁵⁹ The following quote provides an example:

Interviewer: “*You also use EcoCash?*”

Respondent: “*No I can’t send her [grandmother] through EcoCash because she does not know how to read but I use bus driver that drive buses going to my home village. Sometimes I use people who are going to the village.*”

MSME owner, Female, 31 year old

8.2.8. Capital markets

Important provider of funds for financial service providers. The Zimbabwe Stock Exchange is regulated by the Securities and Exchange Commission of Zimbabwe (SECZ). It is an important source of funding for financial institutions in a constrained environment. The main sectors listed on the exchange are large agribusiness companies, financial services firms, mining companies, food and retail, and industrial firms, with financial sector institutions being a key driver of value (ZSE, 2015). Approximately 75% of all shareholders are adults, a factor that was likely increased by the stock exchange being a port of safety during the hyperinflation period. Of the institutional investors, the main players are pension and mutual funds. Foreign investors, mainly South African based asset managers, are allowed to operate in a limited capacity on the exchange (stakeholder interviews, 2015). As shown in Table 9 below, market cap was around USD 4 billion at the end of 2014.

⁵⁹ These providers will often offer the option of both goods and monetary transfers (qualitative study, 2015).



Date	Turnover (USD)	Turnover (Volume)	Market Cap (USD)
Dec-09	413 976 723.75	4 593 479 746	3 829 925 096.00
Dec-10	391 572 192.31	6 800 155 462	3 884 485 459.00
Dec-11	477 523 919.44	4 610 008 413	3 689 685 939.00
Dec-12	448 179 265.90	3 513 176 891	3 963 534 353.00
Dec-13	485 719 802.03	2 996 886 088	5 203 129 775.00
Dec-14	452 865 752.17	3 179 300 954	4 327 059 383.65
Apr-15	98 930 797.68	1 176 384 376	4 066 067 417.00

Table 9: Zimbabwe Stock Exchange - annual market statistics

Source: SECZ, 2015⁶⁰

⁶⁰ Information provided directly by the Securities Exchange Commission Zimbabwe in 2015.



9. Product markets

The previous section applied the provider lens to outline market trends. This section takes a granular look at each of the four product markets covered by MAP, namely credit, savings, payments and insurance. For each, it unpacks:

- The most prominent need cases for that market;
- the uptake of various types of services in the market;
- the provision of services to the market, including an overview of providers serving that market and the range and features of products supplied in the market;
- barriers facing greater inclusion in this market; and
- any particular regulatory issues contributing to the above-mentioned barriers.

It then concludes on the gaps and opportunities particular to each market.

9.1. Market for credit

The market for credit in Zimbabwe is small and constrained by low incomes, a declining corporate sector, shrinking formal sector employment, high non-performing loans and increased informality. These trends have seen a dramatic reduction in uptake of traditional credit offerings. At the same time, the rise of mobile money credit is a notable innovation to extend low-value credit to the lower income market. This section outlines consumer needs for credit in Zimbabwe and how the market is responding to these needs.

Key findings: market for credit

- Due to constrained personal financial circumstances, Zimbabwean adults by and large utilise credit for consumption smoothing purposes.
- Education is a major priority for Zimbabwe and is another prominent use for credit.
- Mobile money credit is the predominant form of formally sourced credit and has grown in prominence in a short timeframe. This growth in uptake is attributable to ubiquitous ownership of mobile phones, innovative and context-specific credit verification methods using alternative data and low digital distribution costs which allow for competitive pricing.
- MFI credit, agricultural credit and productive credit serve a very small client base.
- The “traditional” Zimbabwean credit market is characterised by rising non-performing loans, short loan terms and an increasing dependence on payroll loans against the backdrop of declining formal employment.

9.1.1. Need cases

The diagrams overleaf outline the main need cases for credit in Zimbabwe identified based on FinScope (2014), namely:

1. Consumption smoothing;
2. Asset accumulation;
3. Providing for education;
4. Risk mitigation; and
5. Providing for agricultural inputs.



The bottom figure shows the percentage of adults using credit to serve each of these needs, confirming that most people borrow for consumption smoothing, followed by asset accumulation and providing for education, then for risk mitigation and finally for agricultural inputs. The top diagram takes a different perspective: it plots each of these five need cases at an overall level and considers the role of credit vis-à-vis other types of financial services in meeting this need.

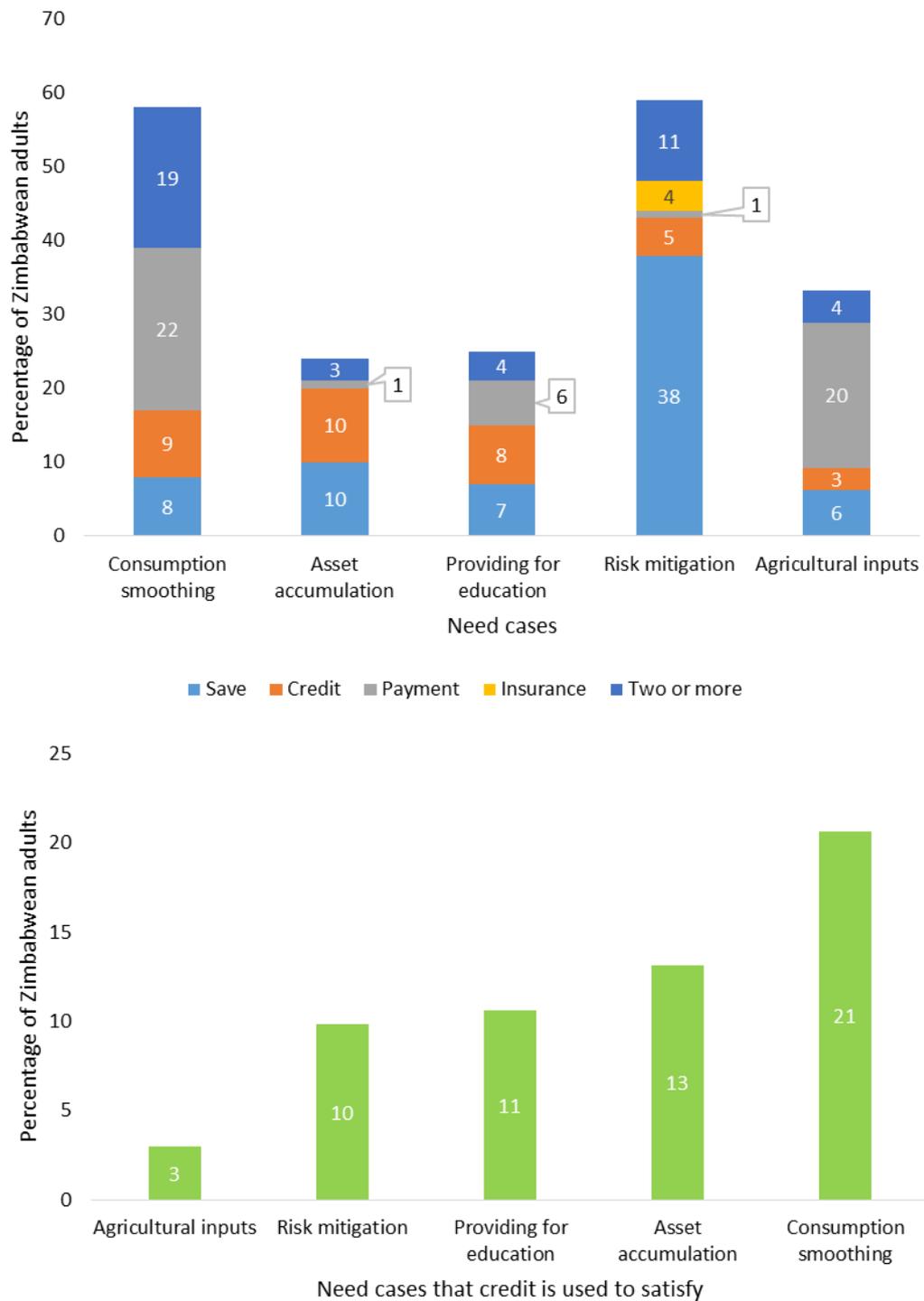


Figure 46: Consumer need cases for credit

Source: FinScope, 2014



Below, each need case is analysed in more detail.

Consumption smoothing the primary reason for borrowing. Of the five need cases for credit, consumption smoothing is the most prominent with 21% of adults indicating that they use credit for consumption smoothing purposes. Credit is the second most utilised product class to meet this need after payments (note: payments in this instance refers to the use of remittances to smooth consumption). The most cited consumptive uses for credit included living expenses (17% of adults), and utility bills (7% of adults) (FinScope, 2014).

Interviewer: What are the reasons that make you take out loans?

“As I said in business there are ups and downs so when business is not good I go and borrow money to pay my bills or to boost my business and when I pay back it will have an interest of 15%.”

- MSME owner, Female, 31 years old

Asset purchases viewed as an important investment. Asset accumulation is the second most-cited need case for credit products with 13% of Zimbabwean adults indicating the utilisation of credit to meet their asset purchasing needs. FinScope (2014) shows that 140 000 adults (2% of the population) used credit to buy or build accommodation and 70 000 adults (1%) used credit to purchase land (FinScope, 2014). While the purpose of borrowing from formal credit institutions is not stipulated, supply-side consultations indicated that a significant proportion of salaried workers take out loans to buy land and for incremental housing needs (Stakeholder interviews, 2015). These are relatively low figures and reflective of housing credit available. In 2014, only 6% of total bank credit was lent out as mortgage lending (RBZ, 2015).

Providing for education predominant, seen as an investment. Educational attainment is an important value for Zimbabwean adults and is prioritised. In 2014, 11% of adults (770 000 individuals) borrowed for educational purposes (FinScope 2014)⁶¹. It is the third largest need case for credit. Out of all the product classes utilised to meet educational financing needs, credit (8%) plays the most critical role and is followed by the use of savings (7%) and payments (6%). As shown in Figure 47 above, when other need cases are assessed, educational provision is the only one in which credit supersedes payments and savings as a means to meet those needs. Whereas many Zimbabwean adults are credit averse, when it comes to education, consumers are prepared to take out loans because they value it so highly. (Up to 34% of consumers indicated a fear of taking on credit) (FinScope, 2014).

Credit plays a small but crucial role in risk mitigation. When impacted by unexpected circumstances, 10% of Zimbabwean adults rely on credit to mitigate risk, making it the second most used product after savings. However, savings are utilised by eight times as many adults for managing risk events. Of those who use credit for risk mitigation, by far the largest incidence is for medical emergencies (13%), followed by funeral expenses (7%) (FinScope, 2014).

Low proportion of borrowing for farming. Against the backdrop of 51% of all Zimbabwean adults receiving income from farming as a primary or second source, only 3% of adults use credit to meet their farming input needs. In contrast, this need is met largely by payments (20%) and savings (6%) (FinScope, 2014). This low figure can be explained by the extremely

⁶¹ FinScope 2014



low incomes of those who depend on farming as a primary income – an average of USD77 a month – and extremely low supply of formal credit to farmers, which is geared to commercial farmers (0.04% of all farmers) and not the remaining 99.96% small-holders (Scoones, 2011).

9.1.2. Uptake of credit

Credit from informal sources, including family and friends, predominant. As illustrated in Figure 48, the total proportion of adults with access to credit declined from 51% in 2011 to 42% in 2014. Due to declining average incomes and declining formal employment in that time period, Zimbabwean adults were increasingly unable to access credit. Over the three-year period, informal credit usage also declined. Of those with access to credit, the largest proportion continue to access credit from informal sources or family and friends (29%, or 489 700 adults) as opposed to 13% who access formal credit. A notable trend is the rapid rise in mobile money credit, to which the decline in informal credit access can be attributed. The number of adults accessing formal credit from a non-bank provider has increased from 2% to 9% in three years (FinScope 2011, FinScope 2014).

“Oh, yes we did, we took a loan, first we had to pay USD400 for Doves to assist us here in Zimbabwe but we need USD230 for Doves to deliver the body to the rural areas and we didn’t have that kind of money and we looked for a friend to loan us that money, then paid for Doves. My younger sister in Scotland then sent the money in four days.”

Poultry farmer, Male, 49 years old

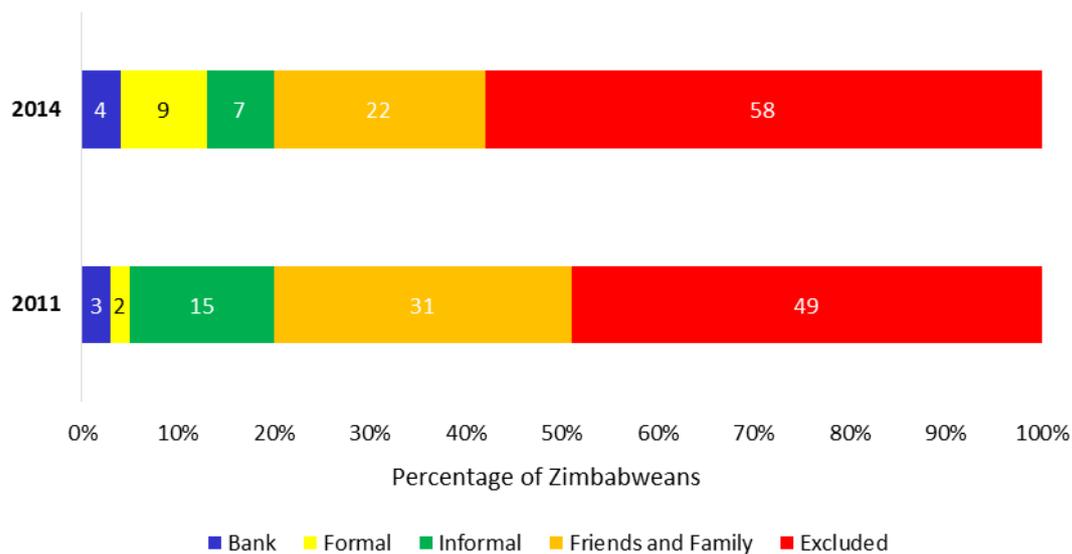


Figure 47: Credit Access Strand, 2011 & 2014

Source: FinScope, 2011; FinScope, 2014

Emergence of mobile money credit the predominant driver of expanding access; MFI credit almost negligible. The total number of existing credit consumers accessing formal credit in 2014 was 825 000, which accounts for 23% of all adults with access to credit. As a proportion of the total adult population, this represents 13% of all adults, an increase from 5% in 2011. The entry of mobile money credit into the market in 2011 is the predominant driver of the



increase in formal credit uptake from non-bank financial institutions (NBFIs). Mobile money credit experienced a fourfold increase in the three year period from 120 000 consumers to 630 000 consumers. Banks experienced an increase in the number of consumers accessing bank credit by 56% from 179 500 to 279 800. Mobile money credit now dominates the formal credit market and accounts for 63.8% of formal credit, while 31.5% are served by bank credit and the remaining 4.7% (only 38 400 adults) rely on credit from MFIs (FinScope 2011, FinScope, 2014).

The diagram below considers the uptake of credit across target markets:

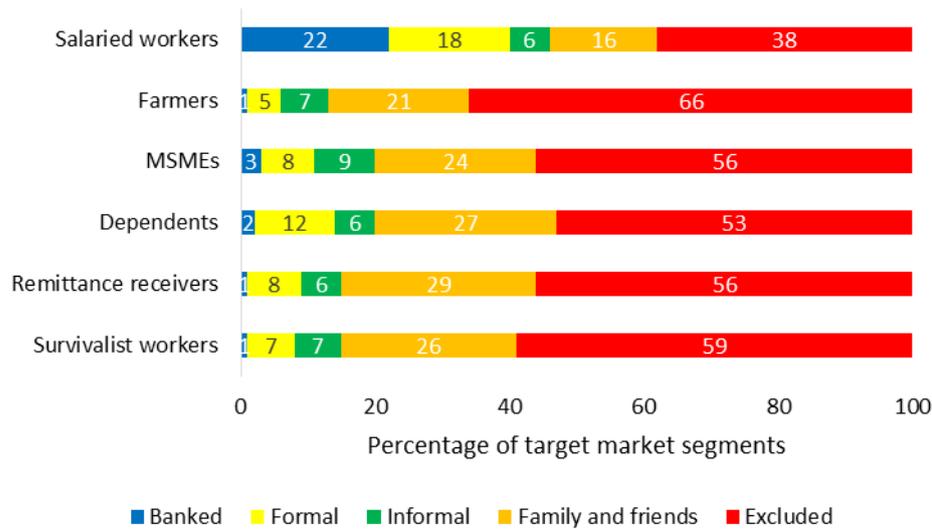


Figure 48: Credit access by target market, 2014

Source: FinScope, 2014

Salaried segment best served. As illustrated in Figure 48, the salaried worker segment is the best served with only 38% excluded from credit product access. Of these adults, 22.1% have access to credit from banks, 14.2% access mobile money credit and 2.9% have credit from MFIs. None of the remaining target markets exceed 3% in bank issued credit. Likewise, mobile money credit to the salaried individuals, at 14.2%, outstrips all other segments. And credit from MFIs as a percentage of the total adults in the segment, at 21 300 adults (2.9%), is nearly five times as high as the next closest segments, which are MSME adults at 0.5% (4 400 adults) and dependents at 0.6% (5 900 adults) of the segment. Remittance receivers and survivalist workers have no access to MFI credit, and only 1 200 farmers indicated having access to MFI credit. This is largely due to the preponderance of payroll lending and the importance of salaries as the most preferred form of surety among MFIs and banks– which effectively exclude all consumers except the salaried (FinScope, 2014).

Over-indebtedness likely high but unquantified. In the absence of a credit market monitoring mechanism for all credit providers (including money lenders) and a credit bureau, the extent of indebtedness of consumers is difficult to ascertain. There is evidence from the high NPLs of both banks and MFIs that points to consumer indebtedness among their primary target market, the formally employed. A large proportion of consumers indicated having their loans rolled over and their inability to repay their credit (FinScope, 2014).



Formal credit access less prevalent among rural consumers. As illustrated in Figure 48, a larger proportion of urban consumers (20%) has access to formal credit (bank and non-bank), whereas only 9% of adults residing in rural areas has access to formal credit. The same trend holds for bank issued credit, which accounts for 8% of urban borrowers and only 2% of rural ones. The reliance on social cohesion, evidenced through borrowing from the family and friends, is much higher in rural areas where twice as many rural consumers (1.4 million) as urban consumers (714 600) utilise credit from this source. Similarly, rural borrowers (432 700 adults) are three times more likely to access credit from informal sources than urban borrowers (168 200) (FinScope, 2011).

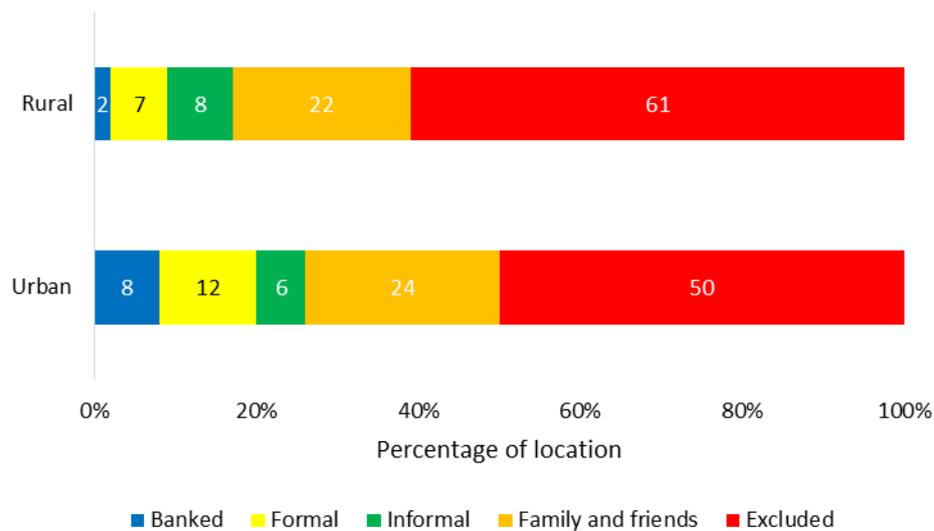


Figure 49: Credit access strand by rural-urban divide, 2014

Source: FinScope, 2014

9.1.3. Provision by financial service providers

9.1.3.1. Market Overview

Mobile money credit dominates formal credit provision by volume of customers. While the majority of adults rely on informal sources of credit, it is apparent from the discussion above that a sizeable number make use of mobile money credit. Mobile-led digital finance entered the market in 2011, and by 2014 had superseded bank credit in terms of the number of customers. As also outlined above, MFIs account for a very small proportion of the customer base. The success of mobile money credit can be attributed to innovative delivery channels, context-specific credit risk assessment models and a captive share of the mobile telephony market by the largest mobile money credit provider in Zimbabwe. The EcoCash credit model is elaborated on in the box below.

Box 8: The EcoCash credit model

Innovative microcredit solutions. The EcoCash Loan Account offers micro-loans that range in size from USD5 to USD500 and have a 30-day loan term. In order to apply for the loan, applicants must be EcoCash customers. By virtue of being EcoCash customers already, they need not provide their identification documentation on applying for the loan. Their SIM card registration, maintained on record by EcoCash, is sufficient. The application and administration of the EcoCash Loan Account is



entirely on a digital platform and can be accessed on feature phones, utilising a USSD interface. This distribution model reduces the cost to serve consumers and enables EcoCash to offer a competitively priced micro-credit offering. As a means to ascertain willingness and ability to repay the loan, consumers are required to save any amount over USD5 monthly over three months. EcoCash then matches the total amount saved, and holds 25% of the funds held in the EcoCash Save Account as collateral and security (EcoCash, 2015).

While there is a once-off 5% administration fee on application for a loan, there is no interest on the loan. However, there is an 8% penalty for failure to repay within the 30-day loan term. Loans are only rolled over for an additional 30 days, after which the EcoCash loan account is closed. The loan agreement allows EcoCash to access funds in the consumer's EcoCash Wallet and EcoCash Save account to recover outstanding amounts.

The EcoCash Loan Account presents an interesting model for a number of reasons:

1. *EcoCash's digital distribution completely removes the need for branch access to apply for the loan, thereby reducing costs.* It can be challenging to make the business case for micro-loans using traditional distribution models, collection and administration processes. The cost per consumer to service micro-loans by bringing the application, disbursement and collection processes into the digital sphere.
2. *The use of alternative data removes an important access barrier.* Of the three pillars that characterise most credit risk assessment models: identity, ability and willingness to pay, EcoCash utilises alternative data to assess ability and willingness to pay. EcoCash Loans alternative data points include: transactional flows (value and volume) through the EcoCash wallet, transactional flows through the EcoCash Save Account, monthly expenditure on airtime and data. Verifying identity is seamless as the provider already owns this data from a separate registration process – this data can be used for application for any variety of products the MMO launches to its consumers.

Mobile money credit also the formal option most relevant to low-income earners. As the figure below indicates, mobile money credit also serves a lower-income target market than bank and MFI credit, though is unable to reach as low down the income spectrum as informal providers, family and friends:

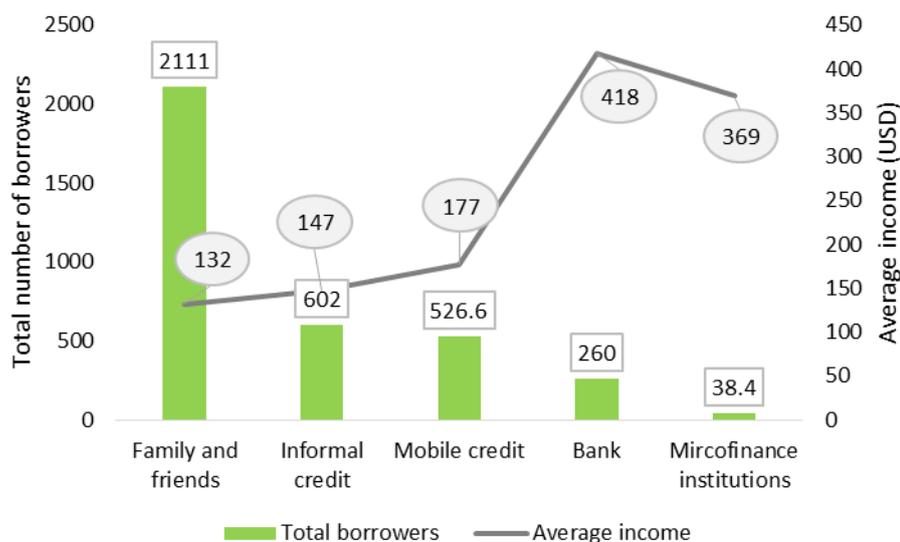


Figure 50: Summary of client numbers and income profile by provider

Source: FinScope, 2014

Payroll lending increasing rapidly, but within a constrained target market. Faced with declining demand for corporate credit due to the impact of Dutch Disease, the supply of personal credit driven by payroll has continued to climb since 2009. Over three years, bank issued payroll loans have increased by 300% from USD261 million in 2011 to USD1.1 billion (RBZ, 2010 – 2015). As a proportion of total bank-issued credit, payroll lending has grown from 8.6% in 2010 to 23.5% in 2015 (RBZ, 2015). MFI lending, which is also predominantly salary based, has seen less stable growth in the same timeframe and declining by 4% in 2014 (RBZ, 2015). While banks and MFIs are redoubling efforts in the payroll lending segment, the salaried worker segment is increasingly under pressure due to the constrained economic environment.

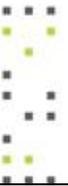
Bank non-performing loans on the rise. Bank NPL ratios have remained around 15% since 2013, having grown to that level from a lower value of 8% in 2011 (RBZ, 2015). The primary contributor to the increase has been increasing NPL ratios in the banks' corporate lending portfolios (supply-side consultations, 2015). As the corporate sector faces diminishing productivity and revenue, an increasing number of institutions are left unable to service their debts. In contrast, MFIs' NPL ratios (measured as PAR⁶²>30 days) show a declining trend: from 25.52% in 2012 to 11.95% in 2015 (RBZ, 2015). One main reason for this is that the majority of MFI credit is payroll lending, with re-payments guaranteed and deducted from salaries.

9.1.3.2. Product offerings

The credit product offering in Zimbabwe is as follows across providers and main borrower types:

Loan Category	Product Types	Bank	MFI	ISAL	MMO	Informal	Borrower
	Corporate loan	✓	x	x	x	x	— Large corporates

⁶² Portfolio at risk.



Business Credit	SME loan	✓	✓	x	x	x	— SMEs
Individual Credit	Payroll loan	✓	✓	x	✓	x	— Salaried workers
	Overdraft	✓	x	x	x	x	— Salaried workers
	Unsecured	x	x	x	✓	✓	— Salaried workers, informally employed, Smallholders
Agricultural credit	Agri loan	✓	x	x	x	x	— Large agribusinesses, commercial farmers
	Value chain finance	✓	x	x	x	x	— Medium-sized agribusinesses, commercial farmers
	Input credit	✓	x	x	x	x	— Smallholders, commercial farmers.
	Group loans	✓	✓	✓	x	x	— Smallholders
Asset based finance	Mortgage	✓	x	x	x	x	— Salaried workers
	Car leasing	✓	x	x	x	x	— Salaried workers

Table 10: Credit market product offerings

Source: Stakeholder interviews (2015) and review of products offered by all mentioned provider types, qualitative survey.

Multiple bank credit products serving a small and shrinking segment. A survey of the products on the market, as illustrated in the table above, shows that banks have the most diverse range of products available of all credit providers. However, these products are predominantly targeted at consumers that are salaried workers, and large commercial businesses and commercial farms. Only 0.04% of farmers are commercial farmers (Scoones, 2011), and only 3% of microenterprises in Zimbabwe employ over 6 employees (FinScope 2012). As such, there is a mismatch between bank credit offerings and the bulk of credit consumers in the market. There is also an oversupply of credit products for salaried workers in the face of heavy indebtedness, exemplified by growing NPLs. Notably, there are no formal credit options targeted to individuals other than smallholders and salaried workers.

Limited productive credit. Given the highly fragmented and informal nature of the microenterprise and farming sectors, and the large segments of the economy utilising these livelihood strategies, there is insufficient credit designed for smallholders and microenterprises. Some providers are offering products tailored to entities of this size, but they serve a limited customer base. For example, fewer than 600 SME accounts were encountered in the market (Stakeholder interviews, 2015).

Prohibitive interest charges and eligibility requirements for small business clients. Average commercial bank interest rates are 16% p.a. and range from a minimum of 12.5% to a maximum of 35% per annum⁶³ (see Table 10) (Stakeholder interviews, 2015; providers' product review, and author's calculations). This means that the majority of microenterprises are priced out of the market. Fees additional to interest rates act to further exclude consumers. These include initiation fees which range from 1.6% to 8% of a loan, and administration fees which range from 1% to 5% of the loan amount. The majority of banks furthermore require credit life insurance to access loans, adding additional cost to the consumer (Stakeholder interviews, 2015). Further to this, eligibility requirements for loans



such as identification, payslips, proof of residence and business plans act to exclude MSME consumers, of whom 75% are informal and can thus not furnish these requirements.

Bank name	Average interest rate (p.a.)	Maximum interest rate (p.a.)
Agri Bank	-	35%
Bank ABC	23.5%	25%
Barclays Bank	15%	16%
CBZ Bank	18.5%	22%
CABZ	16.5%	17%
FBC Bank	18%	18%
Metbank	13.5%	16%
NMB	18.5%	22%
Stanbic	18.5%	18.5%
Stanchart	19.5%	22%
Steward Bank	12.5%	12.5%

Table 11: Selected commercial banks' interest rates

Source: Supply-side consultations, providers' product review, and author's calculations

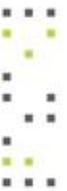
Increasing willingness to move downstream through product design. Reflective of an increasing informality, diminishing incomes, and an increasingly fragmented economy, a number of service providers are introducing products designed for the 'new normal'. A few banks, led by Commercial Bank of Zimbabwe (CBZ), are working to expand microenterprise and SME lending. Models of interest that are emerging are savings based loans that match savings over a 6- or 12-month period with an equal amount in loans. This primarily addresses the lack of collateral among consumers. Group loans being offered by both banks and MFIs are another means to mitigate the same, but are still very limited in scope (Stakeholder interviews, 2015).

Agricultural credit focused on commercial farms. Agricultural credit accounts for 16.2% of total formal credit in the market (FinScope, 2014). The bulk of this is lent out to commercial farmers, although as described above, they only account for 0.04% of farmers in Zimbabwe. Banks, by and large, are unwilling or unable to lend to smallholder farmers even though they constitute 99.6% (1 335 728 individuals)⁶⁴ of all farmers following Zimbabwe's land reform process (Scoones, 2011).

Value chain finance the preferred smallholder financing mechanism. Where smallholder lending is present, funders prefer to lend to aggregators, in the form of medium-to-large value chain actors such as processors, as intermediaries rather than reaching smallholders directly. This is done to minimize risk. The interest rate spread is 20-30% per annum⁶⁵. Such lending is almost exclusively for cotton and tobacco farmers (FMT, 2010). In the context of depressed demand due to dollar-denominated production costs, both on a local and international level, there is no scope for other types of crops.

⁶⁴ FMT, 2010.

⁶⁵ FMT, 2010.



Large discrepancy in loan sizes to commercial and smallholder customers. Table 12 below provides an overview of agricultural credit in the banking sector. Average loan sizes to large agribusinesses are generally above USD1 million and can go up to USD20 million, while those to SMEs and middle-market players are less than USD1 million (see Table 12) (Stakeholder interviews, 2015). A donor-driven initiative of this kind is the CREATE Fund (Credit for Agriculture Trade and Expansion) – a USD15 million dollar revolving fund administered by the Zimbabwe Agricultural Development Trust (ZADT) and funded by DFID (Department for International Development) and DANIDA (The Royal Danish Ministry of Foreign Affairs).

Bank name	Credit facilities by tenure	Loan conditions: interest rates and loan sizes	Target market
Zimbabwe Agricultural Development Fund (ZADT) – DFID and DANIDA funded	Working capital loans tenure range from 3 months to 12 months, Up to 36 months for capital investment loans.	11.5% p.a. Loan Size: \$5,000 to \$200,000. > \$200,000	Agribusinesses, contract out grower schemes and other value chain players.
CBZ	90day, 180day, 12 to 18 months; Overdraft facility Microfinance group facility \$100 to \$100,000	15% to 20% p.a. Collateral assets Invoice financing For MF credit to traders, farmers, – group approach	Customized approach: large corporates e.g. Surface, Seedco, farmers, agro-firms, informal traders
Standard Chartered	\$20 million facility, 30 to 180 day loans, 12 to 18 months loans	8% to 12% loan: >\$1million SME loans <\$1m Full collateral cover required	Focus is on a small set of top corporate clients with local and offshore assets
MBCA	90 day facility 12 to 18 months overdraft	15% to 22% \$100,000 to \$200,000 Collateral required	Large corporate firms e.g. Northern tobacco, Natfoods, Delta, Produtrade
Agri Bank	Facilities of \$10m and \$20m	Tobacco facility@28% Collateral required	Tobacco, maize soybeans, and Chibuku sorghum crops only
NMB	90 to 120 days 30 days overdraft Invoice financing	Loans - 28% to 60% \$250,000 overdraft - 24%, Collateral required	Commercial farmers with collateral, horticulture poultry/pigs/dairy, seed houses, processors

Table 12: Agricultural credit products overview – selected banks

Source: FMT, 2010; stakeholder interviews, 2015

Some microcredit to smallholder groups. Some MFIs and banks, such as VIRL, Microplan and FMC, offer group loans (requiring group guarantees) to farmers, but this is very limited in scope. The average loan size per group is around USD1 000 and can go up to USD3 000 for a group of ten. The term for these loans is typically 1 month (FinMark Trust, 2012).



Smallholder farmers reliant on informal and group loans for inputs. In the absence of formal agricultural credit, most smallholder farmers rely on community and other informal sources to meet their credit needs, in the form of personal credit as opposed to agricultural credit. Some farmer groups can access community based credit through membership in Internal Savings and Lending Schemes⁶⁶ (ISALs)⁶⁷. Interest rates are typically as high as 120% per annum for these small-sized loans (Stakeholder interview, 2015).

Mortgage lending growing from a low base. The only forms of asset based finance in the Zimbabwean credit market are mortgages and car leasing, but both are limited. While still low at 5.99% of total bank credit supplied, mortgage lending has grown in recent times (Stakeholder interviews, 2015). Mortgages are only accessible to salaried individuals, and are therefore limited in their outreach. Given the history of hyperinflation and dollarisation, Zimbabweans view financial assets with distrust and favour more tangible assets such as housing. However, with declining incomes, the short-term nature of housing credit, and prohibitive pricing of credit, consumers have few mortgage options available to them.

9.1.4. Barriers to access

Fear of debt front of mind for consumers. When FinScope (2014) asked respondents why they do not use credit, the most frequently cited reason for not taking up credit was the fear of debt: as many as 34% of all adults cited this as the primary reason for not borrowing. 32% of adults indicated concerns about inability to repay loans as another key barrier to credit uptake.

Affordability and fears about inability to service debt also important deterrents. Linked with fears around repayment of debt was the affordability of credit, with 2% of consumers indicating that the current interest rates on credit in the market are prohibitively high. When asked to cite their main problems, 46% of those who were struggling to repay their loans intimated that repayment terms were too short, 29% found the repayment terms difficult to meet and 18% cited high interest charges.

Eligibility is a significant barrier to credit access. The requirement for collateral to access loans is a significant barrier to access, with 19% of adults indicated being denied a loan because of their inability to put up the necessary surety. Poor or non-existent credit history was the biggest reason cited for those who reported being denied a loan, while 20% indicate not being formally employed as the reason. The most widely accepted and available form of surety is a monthly salary, however, as indicated in the Context Drivers discussion, the size of the formally employed consumer base is shrinking.

9.1.5. Regulatory issues

The introduction of interest rate caps. Interest rate caps were introduced in October 2015 (see Table 13). The impact thereof is as of yet unknown, but there is a strong possibility that such caps can act as a further disincentive to credit provision if they are deemed too low by credit

⁶⁶ ISALs are community based savings mechanisms in which group members make regular contributions, and on-lend pooled funds to applicants who are often members of the ISAL.

⁶⁷ Internal Saving and Lending Schemes.



providers to price for risk. This will be especially true for customers outside of the corporate and formally employed client base.

Category	Lending Rates (p.a.)
<i>Lending to productive sectors</i>	
Prime borrowers with low credit risk	6% - 10%
Borrowers with moderate credit risk	10% - 12%
Borrowers with high credit risk	12% - 18%
<i>Housing</i>	
Housing finance	8% - 16%
<i>Consumptive</i>	
Consumptive lending	10% - 18%

Table 13: RBZ interest rate guidelines, effective 1 October 2015

Source: RBZ, 2015

9.1.6. Product market findings

This sub-section summarises the main findings on the current state and future prospects for growth in the credit market in Zimbabwe.

Mobile money credit dominance. The rise of mobile money credit in the last few years is in many ways instructive of the type of credit product that may be most suitable within the current environment. Mobile money credit is characterised by low values, and creditworthiness is determined through transactional history on the mobile platform collected by the MNO over time. Mobile customer registration requirements count as adequate KYC requirements, effectively removing an eligibility barrier to access. Furthermore, distribution of mobile money offers convenience to both rural and urban consumers and is made additionally attractive by the proliferation of MMO agents.

Reliance on dwindling payroll lending a cause for concern. The formal workforce has almost halved to 736 000 in 2014 from 1.2 million adults in 1998. As manufacturing and corporates continue to face difficult economic circumstances, lending to corporates is less viable and payroll lending is gaining in importance. However, the salaried workforce as the predominant target market for personal lending products is also under pressure. The fragmented and informal nature of the emerging economic context, along with dwindling incomes, call for innovation in business model and product design to meet the credit needs of a broader set of target markets. This is unlikely to be possible under an interest rate cap regime.

Product and context mismatch hampering financial inclusion. The predominant need cases for credit include consumption smoothing, asset accumulation and education. Given the size of incomes of the bulk of Zimbabwean consumers (up to 65% of adults earn less than the average income of USD133 per month), business models that are driven on volume are most suitable for the lower value of credit that consumers can afford – as the success mobile money credit indicates (FinScope, 2015). However, there is currently no other model seeking to penetrate this market at scale beyond the formally employed client base. Educational attainment remains a value that consumers are prepared to invest in at all costs, however, there are at present no market-appropriate educational credit products on offer. The existing educational



products are long-term products that are not affordable to the average consumer. The current market needs point to short-term, low-value credit to meet term-by-term educational needs.



9.2. Market for savings

Mobilisation of savings to provide capital for growth and development is one of the key roles the financial sector plays (Levine, 1997). Small amounts of savings are pooled to fund investment in larger, more productive projects. There is evidence that savings are especially important for low-income household where small fluctuations in cash flows can have a significant impact (Collins et al. 2009). Low income people want to save and *can* save. Thus, promoting appropriate instruments to accommodate small value irregular savings is a key financial inclusion policy consideration.

This section explores the current need cases for savings in Zimbabwe and investigates how actual usage compares to expressed needs. It then provides an overview of the formal and informal institutional and product landscape as well as the regulatory issues faced. From this it concludes on the access and usage barriers faced and key opportunities for the savings market in Zimbabwe.

Key findings: market for savings

- People save mostly to mitigate risk, followed by consumption smoothing
- Zimbabwean adults regard saving as important, but not always possible and there are many ex-savers who no longer save. People use multiple saving strategies, with an emphasis on saving at home. The usage of informal saving groups is decreasing, but they still play an important role.
- Deposits are becoming more short-term. For short-term and flexible savings, people prefer to save in cash and, increasingly, mobile money, rather than in banks.
- Banks remain the main providers of savings by value by value of deposits held, but their business model is not competitive with mobile money at the entry level.

9.2.1. Need cases

Saving to mitigate risk, plan for the future. Figure 51 provides a breakdown of the main savings need cases in Zimbabwe as identified through the demand-side research. The bottom of the diagram indicates that risk mitigation is the dominant need fulfilled by savings at present. This is followed by consumption smoothing, asset accumulation, saving for farming inputs/working capital and education. The top diagram considers the various channels through which people address these main need cases and the extent to which people use more than one product market to meet a particular need (the top block of each column). It shows that savings is the main product market for risk mitigation, education provision and business finance. It is trumped only by payments/remittances where consumption smoothing and the need for farming inputs is concerned, and by credit when it comes to asset accumulation.

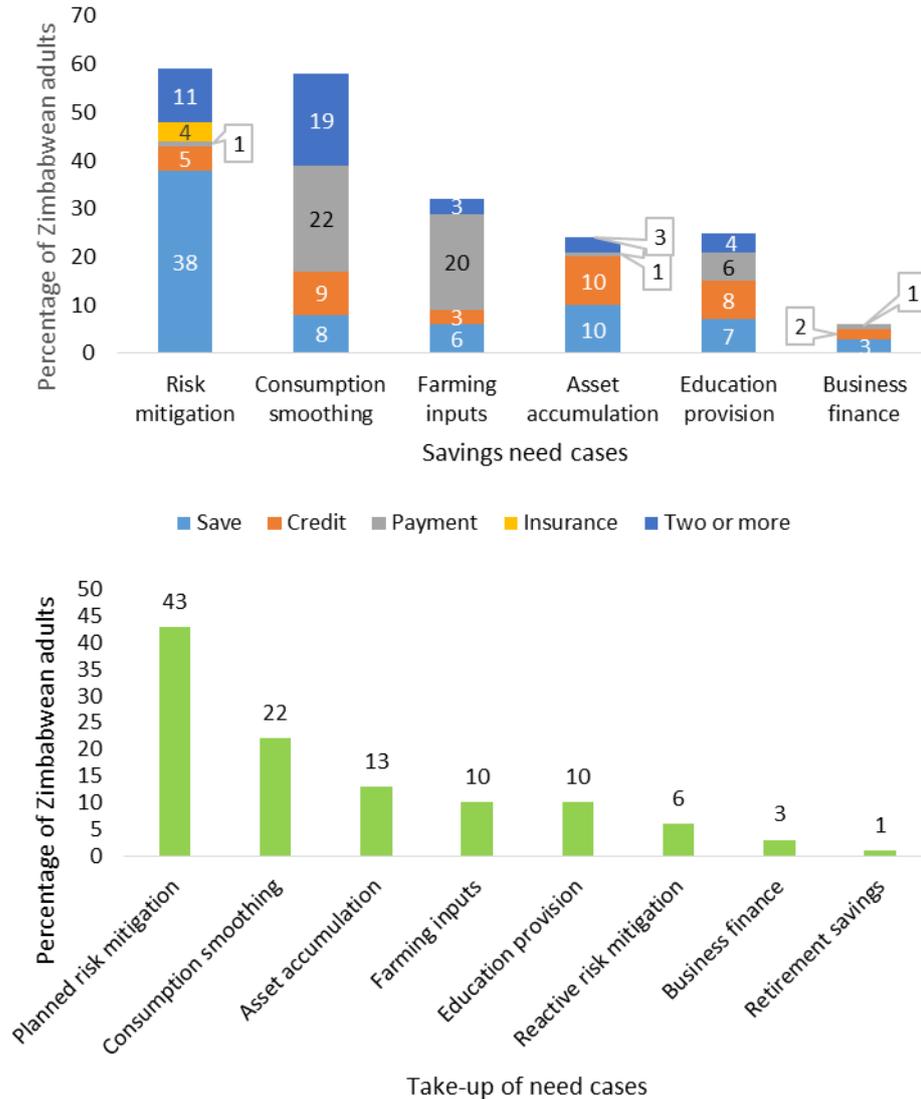


Figure 51: Savings need cases

Source: FinScope, 2014

Below we provide an overview of the top five savings need cases, drawing on the FinScope and qualitative demand-side research.

Risk mitigation the primary motivation for saving. Risk mitigation is the primary need case for savings for Zimbabwean adults. 43% of adults (3 037 640) actively save for the purposes of planned risk mitigation, while a further 6% of adults (387 984) use their savings for reactive risk mitigation (FinScope, 2014). Risks can take many forms, including health needs and general emergencies. This is a need case that is particularly notable for farmers and MSMEs due to the strong tie between their risk-taking business activities and personal finances

Saving to smooth consumption amidst growing uncertainty. People save for consumption smoothing to meet living expenses and manage irregular cash flows. This can be money put aside to cover expenses that occur during the month, as well as those that occur at longer time intervals. It is an important savings need case in Zimbabwe, with 22% of adults (1 539 158) saving for this need (FinScope, 2014). It is notable that savings uptake is almost matched



by credit and payments uptake for consumption smoothing. Infrequent or unpredictable income receipts are one key driver of the need to smooth out income for consumption. This is a trend that is likely to continue given the growing informality in the Zimbabwean economy.

Planning ahead by building a home. 13% of adults indicate that they save for asset accumulation (FinScope, 2014). The accumulation of assets, as a largely inflationary-resistant form of saving, was highlighted as a popular method of longer term saving in the supply-side (2015) and demand-side consultations (2015).

"We do not have any savings at the bank anymore. Should we generate any extra, I would prefer to save in property."

Private sector worker, Male, 53 years old

Saving for school fees. 10% of adults save for education. As outlined in section 2, Zimbabweans place high value on education as an investment in their children's future. For example, 59% of adults (4 103 364 adults) indicated a child's education as a major life event (FinScope, 2014). Supply-side and demand-side consultations (2015) highlighted that a high importance is placed on the attainment of education, resulting in a willingness to take on the opportunity cost of savings for this purpose for immediate and, where needed, extended family members. The provision for unforeseen education expenses has impacted 28% of adults (1 929 578 adults) in the past year (FinScope, 2014). Farmers, MSMEs and salaried workers are the dominant target markets saving for this need case (FinScope, 2014).

"Yes I do save, you just have to you can't make it without making any saving. I save USD150 every month to be able to meet school fees payments."

Government worker, Male, unknown age

9.2.2. Uptake of savings products

More than half of Zimbabwean adults do not save, but savings nevertheless important. A total of 47% of all adults in Zimbabwe indicate that they save. However, there is largely consensus that it would be important to save. 59% of adults (4 140 000 individuals) believe sacrificing for saving is important, while 70% of adults (4 926 000 individuals) believe you should save even when your income is low (FinScope, 2014).

Bank-based and informal savings have dropped. The percentage of adults who save is down from 63% in 2011. Thus, whereas almost two out of three Zimbabwean adults were in a position to save in 2011, this has reduced to less than one in two in just three years. As the access strand comparison between 2011 and 2014 below indicates, the reduction in saving has been largely among those that save in a bank as well as those that save in informal mechanisms such as a savings round or club. The percentage of adults that save only at home has remained the same and there has been an increase in non-bank formal channels (FinScope, 2014). Thus, while there have been some usage shifts over the two survey years, the large decline in overall savings penetration indicates that some adults stopped saving entirely. This is likely driven by the declining income levels as described in section 2.

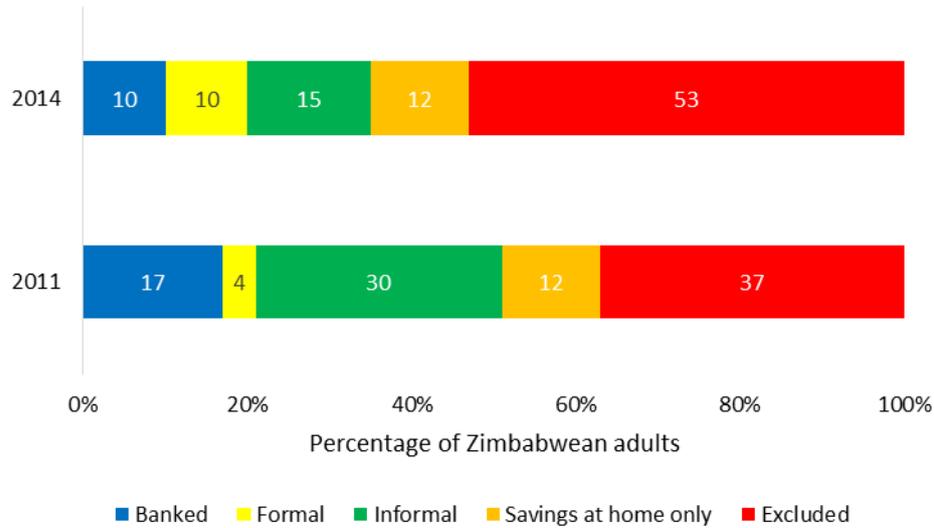
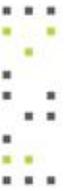


Figure 52: Savings strand comparison 2011 and 2014

Source: FinScope, 2011; FinScope, 2014

More prefer to save in cash, mobile money than in banks. The access strand in Figure 52 indicates that 27% of adults save only outside the formal sector. Thus saving is not only low overall, but saving through formal channels is eclipsed by savings held outside of the formal sector. Figure 53 shows uptake for the main savings-related need cases across type of providers by considering the number of “usage instances” of saving for each need case for each provider. In each need case, the percentage of the use case fulfilled by banks is less than 20% and only marginally higher than for the non-bank formal component (which is largely accounted for by mobile money). Saving done in cash through informal savings groups and saving at home or via family and friends accounts for the bulk of each need case (FinScope, 2014), as indicated by the red box in the diagram below.

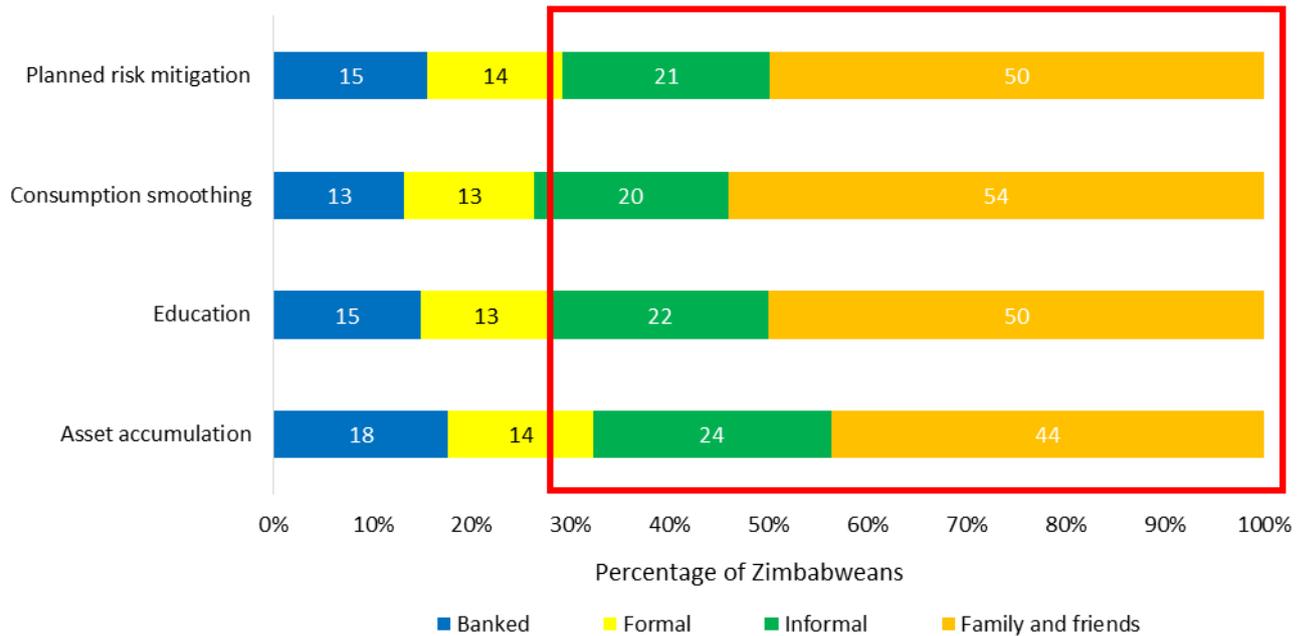


Figure 53: Provider preferences across the main savings need cases

Source: FinScope, 2014

Formal saving moving out of banks. There is also a dynamic element to this picture. Within the formal sector, there has been a shift from bank-based savings to non-bank savings, with the advent of mobile money playing an important role. In 2011, 4% of adults saved only in other formal channels. By 2014, this had increased to 10%. Another possible driver of the drop in bank-based savings is the fact that the target market most likely to have their income paid into a bank, salaried workers, has shrunk in size over the same period (see section 4), as well as the effect of dollarization on bank-based savings (see Box 9) (FinScope, 2011; FinScope, 2014).

Box 9: The effect of dollarisation on savings values

Section 2 documented the hyperinflation experience and the adoption of a multi-currency regime commonly referred to as dollarisation. This is a unique context for savings as the conversion caused the revaluation of savings held in monetary form and stopped the rapidly inflating values of wealth held in assets.⁶⁸ The net result of this is that much of the monetary savings held in financial institutions were revalued to proportionately low USD amounts following the conversation and in the economic context that has followed, some assets hold lower values due to low levels of demand in the market (supply-side consultations, 2015)⁶⁹. This experience has been a behavioural driver of savings channel choice that also helps to explain the drop in bank-based savings.

Multiple saving strategies. The analysis above considered usage of each category of the access strand. It is equally important to analyse the overlaps between categories. A significant number of consumers utilise multiple savings mechanisms. More than half of those who save formally and those who save informally utilise savings from at least one other institution.

⁶⁸ It is notable that during the hyperinflation period asset accumulation for those with access to credit was assisted by the rapidly decreasing value of the assets and therefore drastically reduced requirements to pay.

⁶⁹ During 2015, the final phase of dollarization was initiated. This included of conversion of hard currency and remaining Zimbabwe dollar accounts to USD currency.



Similarly, just under half of those that save at home will also make use of an institutional savings channel (either formal or informal). 3% of adults utilise formal and informal institutions, in addition to saving at home. This suggests that no one category of savings product is fulfilling the savings needs of Zimbabwean adults in isolation (FinScope, 2014).

Most save only low amounts. In 2014, the average amount of savings held was USD203, or 13% of the average annual income for adults (FinScope, 2014). This is significant on a percentage basis when compared to an average household savings rate of between 6-8% for OECD countries between 2009 and 2014 (OECD, 2015). However, the average amount saved is low in relation to saving needs, especially when taking into account that the savings pool covers both short and long-term need cases (as discussed in the previous sub-section). 22% of adults (1 559 757 individuals) reported holding savings of USD1-50 in value. Past this, just over 1 million individuals (15% of adults) hold average savings values of USD51-500 and only 175 579 individuals (3% of adults) indicated average savings above USD500.

Need for both occasional and frequent savings. Figure 54 considers the frequency of savings. It provides an overview of current savings behaviour across providers and therefore allows for adults using multiple instruments to be counted more than once. 40% of adults (2 825 709 individuals) note that they save occasionally, while 31% (2 166 701 individuals) indicate frequent savings of once a month or more (FinScope, 2014).

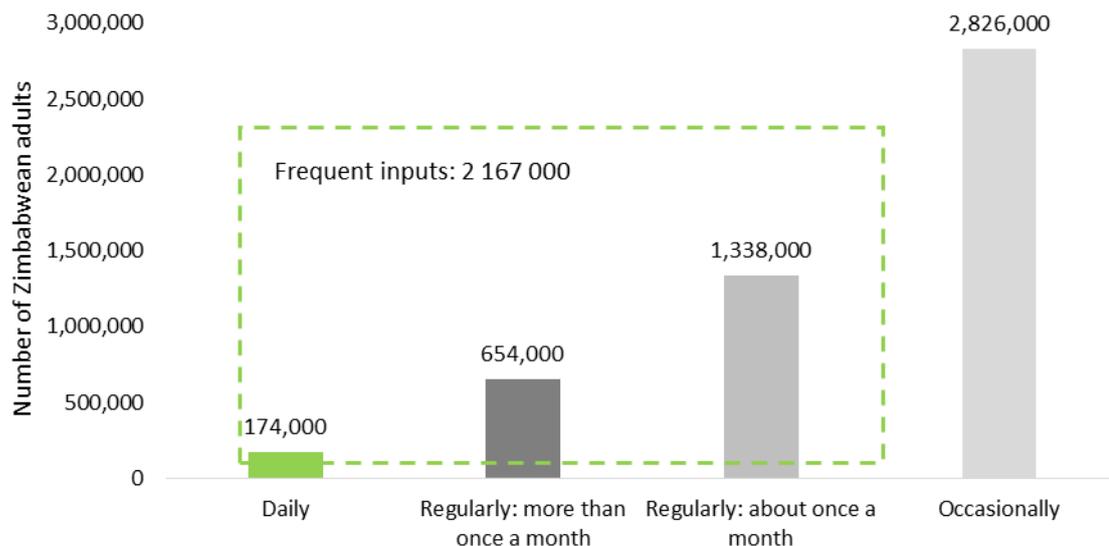


Figure 54: Frequency of saving

Source: FinScope, 2014

Ad hoc savings mostly at home. Of the adults that indicated they save occasionally, the vast majority do so through saving at home (16% of adults or 1 101 001 adults). The other key means of saving infrequently are livestock purchases (6% of adults or 424 887 adults), bank savings (5% of adults or 323 556 adults), and other formal institutions saving (4% of adults or 297 502 adults). Thus occasional saving appears to be *ad hoc* when excess funds are present or a business investment (farming) is required (FinScope, 2014).

Informal savings groups drive regular saving. In contrast, frequent savers (those who save at least monthly) are more likely to make use of a savings groups. In total, 705 966 individuals or 10% of adults indicated saving in this way. Informal savings groups therefore are a strong



driver of more regular saving. In addition to the use of informal savings groups, 5% of adults, respectively, listed using banks (331 056 adults) and saving at home (364 006 adults) for frequent savings, while 3% (201 332 adults) saved with other formal institutions (FinScope, 2014).

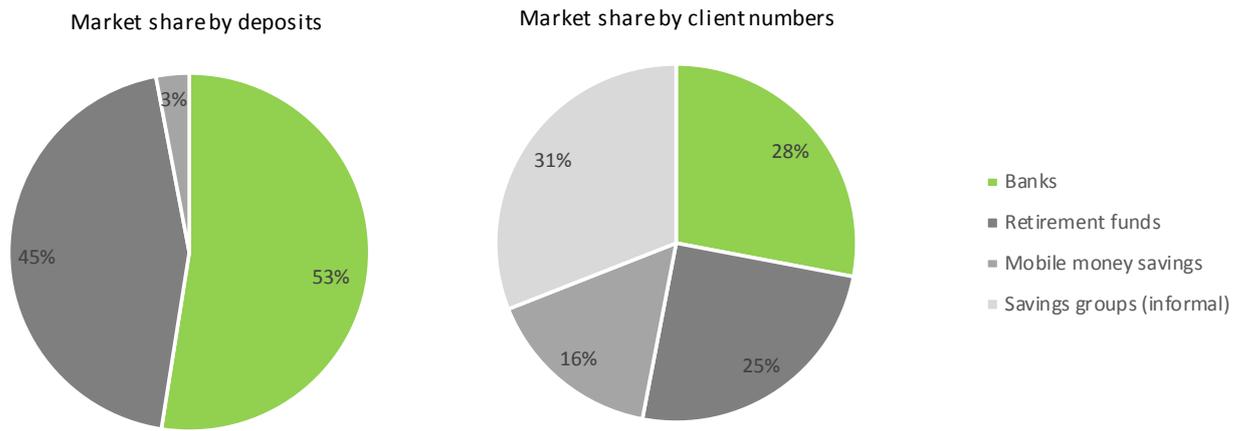
How does usage compare across different groups of people? Appendix C breaks down the saving strand across gender, location and education profiles, as well as across target market segments. The analysis reveals that education matters for saving behaviour, that access is significantly bigger in urban areas than in rural areas (though the number of rural savers is higher than urban savers in absolute terms, given the population spread) and that salaried workers are the best served segment in the formal savings market. Furthermore, the wealthier target markets (salaried workers, MSMEs) and those who have lumpy income flows (notably farmers) tend to save bigger than average amounts, and the poorest segments (survivalist workers and farmers) save the largest proportion of their income. See Appendix B for an overview of the various statistics in this regard.

9.2.3. Provision by financial service providers

Armed with the needs and uptake picture above, the attention turns to outlining the nature and extent of the supply of savings in Zimbabwe in order to evaluate how supply responds to needs and what gaps and opportunities are apparent in the uptake gaps. First this section considers the main types of providers and who they serve, before analysing the scope and features of the available product suite.

9.2.3.1. Market overview

Banks main provider of savings by value, but informal savings groups serve widest client base. There are four types of providers of *intermediated* savings in Zimbabwe (excluding saving via family and friends or at home): banks, retirement funds, mobile money operators and informal savings groups. Figure 55 shows the market share of the various types of providers by deposits and number of clients (as report by FinScope (2014)). In both instances, banks and retirement funds account for the bulk of the market.



Provider	Deposit (USD)	Number of clients	Number of institutions
Banks	2 492 900 000	683 378	21
Retirement funds	2 105 182 000	623 245	179
Mobile money savings	Unknown	389 491	4
Savings groups (informal)	132 349 215	750 935	75 094

Figure 55: Market share of providers by client numbers and deposit share

Source: data supplied by various service providers; FinScope, 2014

*estimated value⁷⁰

**deposit value unknown

Non-bank, low-value savings providers hold half the market by client numbers. Mobile money operators (MMOs) and savings groups account for just under half of the number of clients. Savings groups hold this market share via a decentralised model of many small groups. MMOs, on the other hand, hold larger numbers of customers across only four players.⁷¹

Deposit-taking MFIs not yet active. Deposit-taking MFIs are another potential category of savings provider. There are currently two registered entities, but at the time of writing they were not actively providing savings products and therefore have not been incorporated in the analysis.

All providers offer real returns, serve clients above average population income levels. Figure 56 maps the return offered by different types of providers (y axis) against the average income of their client base (x axis) and the orders of magnitude in terms of total number of clients served (size of the bubble). Given the deflationary environment in Zimbabwe, all providers offer returns that beat inflation, including savings groups that offer 0% effective interest (see section 8.2)⁷². Furthermore, all providers serve clients that are on average wealthier than the average population income level of USD 134 for 2014.

⁷⁰ The deposit values for savings groups are not measured on an official basis across Zimbabwe. Deposit numbers are based on an estimation from the average value saved per group member extrapolated out by the number of members and average contribution timelines.

⁷¹ Though the client interface is mobile money, these customers are effectively engaging in bank deposits, either from residual values stored in the MMO's wallets (held in trust accounts) or through the individual bank savings products offered through MMOs. The data is measured at a point in time where savings products through MMOs were a fairly new concept. MMOs are rising in their dominance in terms of market share by deposits.

⁷² As is discussed in Section 9.1, there is a high spread between deposit rates and lending rates.

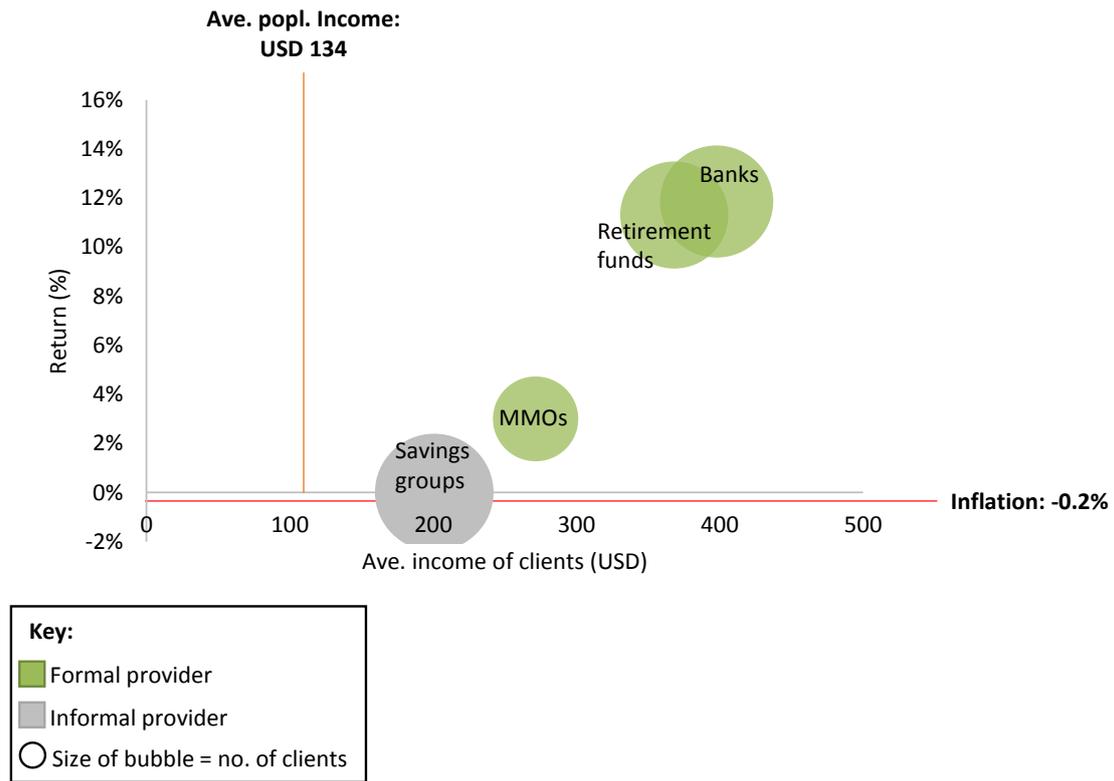


Figure 56: Overview of return, target market (by income) and dominance of providers

Source: data sourced from various financial service providers; FinScope, 2014

Formal providers serve mainly the top end. The diagram indicates that the bank and retirement fund savings clientele earn most, at more than double the population average monthly income. Informal providers, in contrast, serve the lowest income group of savings customers at an average monthly income of USD200. Appendix E contains a detailed table with the client profiles of various types of providers. It is clear that formal providers are the most likely port of call for customers that are urban, male, higher income and highly educated. Accordingly, there is a strong concentration of salaried workers in banks and retirement funds. Savings groups, in contrast, tend to be used by females. Also notable is the greater rural basis and lower income profile of unintermediated savings.

Savings channel preference informed by target market realities. Though there is a substantial group of farmers that save in banks, most of them tend to save in assets, largely in livestock. Aside from this, their key savings access points are mobile money savings and informal savings groups. MSMEs and dependents hold a similar focus. Remittance receivers and survivalist workers on the other hand express a preference for unintermediated sources of saving, followed by informal and then other formal sources of saving.

Formal providers not set for growth. Formal providers have a limited business model incentive to expand their operations in the savings market. An FSP will earn revenue on savings through investing a portion of the value of this deposit pool in a product that provides a return. This is typically through on-lending of the funds (credit) or investing them. In Zimbabwe, both of these potential avenues for revenue from savings are limited in the formal market and therefore the incentive to draw in savings is reduced. Further to this, providers such as retirement funds are not set to grow due to a declining demand for their product offering.



Dollarization reduced their value and undermined consumer trust, plus their primary clients, the salaried market, is reducing in size.

9.2.3.2. Product offerings

Deposits becoming more short-term. Savings products can be delineated into short and long-term savings based on the term length of their product. The dividing line between these two types is generally savings with a term of over or under a year. The diagram below highlights both the absolute value of deposits, as well as the year-on-year growth of overall deposits. It splits out demand deposits, short-term deposits and long-term deposits to give a sense of the product composition of the savings pool. It shows that USD841 million in deposits are held in long-term savings and USD1 403 million in deposits are held in short-term savings, making it a 37% / 63% market split currently (RBZ, 2015).

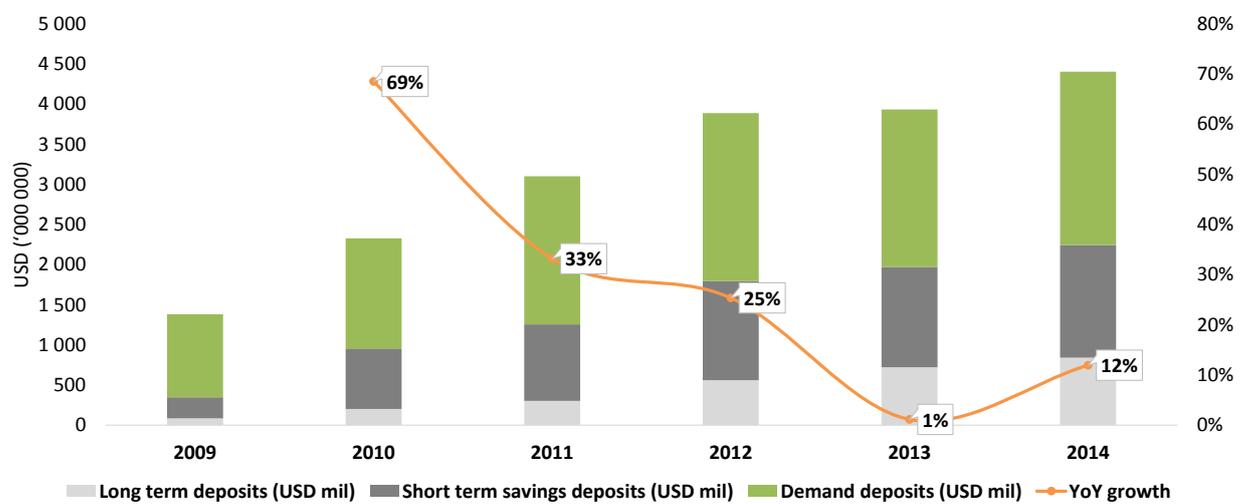


Table 14: Split of short and long term savings by provider

Source: RBZ, 2015

Competitive edge for mobile money providers, informal savings groups. Appendix F outline the product suite for short-term and long-term deposits, respectively. It shows that there is a fairly broad range of products on the market, all of which offer real returns to customers thanks to the deflationary environment. Across the three main provider types, low-cost entry-level savings options are available that do not attract transaction fees, require low minimum balance values⁷³ and provide the potential for returns. This is taken further by the introduction of lower eligibility accounts that allow savings of up to USD1000 with only an I.D. document (stakeholder interviews, 2015). MMOs provide bank-backed savings, yet are able to provide products at a lower cost basis and higher return on average than the banks. A calculation of real returns, after fees⁷⁴, on entry-level savings accounts across banks, mobile money offerings and informal savings groups shows that mobile money savings offer a real return of 3% per annum on their entry-level savings products, versus 2% per annum by banks. Informal savings groups also have a compelling offering vis-à-vis banks. The qualitative research found that the community-based nature generates trust in an often unstable savings environment, and that people value convenient access to encashment and the community ties these groups create.

⁷³ Only 4% of the average monthly income value provided by FinScope (2014) for the highest amount of USD5.

⁷⁴ See Appendix F for details. Calculations made for monthly savings scenarios of USD5 and USD10, respectively.



Box 10: Evolving mobile money savings model

There are two means to save through MMOs in Zimbabwe – either via holding deposits in the transaction wallets or in a unique savings product. While holding savings in a transactional account technically does have the unique match to savings needs that a targeted product can give, most notably interest⁷⁵, it does however provide access to a formal store of value. For a consumer base with high barriers to formal savings access through alternative providers, this opens up a baseline option for an individualised store of value in an institution.

The advent of a formal bank-backed savings product through this system is showing an evolution provision to capitalise on an emerging market gap. It overcomes barriers relating to bank-backed savings by providing savings products through the client facing channel of mobile money, while overcoming regulatory constraints on savings products faced by MMOs. Currently only one MMO has taken this leap – with savings products targeted at individuals or groups.⁷⁶

Long-term deposits less relevant in financial inclusion space. Where long-term savings products provided by banks and retirement funds are concerned, the product suite offers good real returns, but access is predominantly limited to urban areas and top-end customers. The long-term deposit base, while growing, by 2014 was still only a third that of short-term deposits. The shrinking size of its main target audience, salaried workers, undermines further growth potential at scale. See Appendix F for a detailed discussion.

9.2.4. Barriers

There are a number of access barriers that prevent low-income individuals from taking up formal savings products. Furthermore, even those with access may still face significant barriers relating to perceptions, trust and preferences that make them choose not to use the services on offer. FinScope (2014) records the main factors that people consider before saving as:

- Trust in the security of the savings (56% of adults);
- Easy access to savings, i.e. the flexibility (49% of adults); and
- Level of savings return (33% of adults).

Proximity and affordability the main barriers. The table below summarises the main access and usage barriers identified for formal savings in Zimbabwe, based on the FinScope, qualitative and supply-side analysis. Primary barriers are indicated in red, with secondary barriers shaded orange. The underlying evidence for each is unpacked in Appendix G.

Access barriers		
	Proximity	• Access to savings encashment-points largely urban. Identified as a bigger barrier for banks than for mobile money.
	Affordability	• Low income levels undermine affordability of savings • Bank savings are seen to be less affordable than alternative options

⁷⁵ This is due to the fact that MMOs which do not have regulatory provisions pertaining to interest provision and to-date there is no evidence of efforts to clarify in order to provide interest on wallet based accounts.

⁷⁶ https://www.econet.co.zw/EcoCashdiaspora/saving_club.html, <https://www.econet.co.zw/save/>



Appropriateness	<ul style="list-style-type: none"> Informal savings the only commitment device option for short-term savings. Retirement funds, a key long-term savings product with this feature, are reducing in availability.
Eligibility	<ul style="list-style-type: none"> Low barrier for short-term low value savings where reduced KYC applies (only ID required) Long-term savings requires full KYC documentation
Usage barriers	
Trust	<ul style="list-style-type: none"> Reduced trust in financial institutions, in particular banks, generated by loss of funds at various milestones in recent history.
Financial capability	<ul style="list-style-type: none"> Savers are on average more educated than non-savers Increasing popularity for access to saving via mobile channels requires capability to handle digital financial services.
Hassle factor	<ul style="list-style-type: none"> Crowded branches of formal institutions identified as a hassle factor

Table 15: Access and usage barrier summary

Source: FinScope, 2014; qualitative demand-side research

Expressed access and usage barriers most pronounced for bank-based savings. The analysis indicates that banks are not the preferred providers of savings products, due to both proximity and affordability considerations, with people expressing a preference for the transaction fee-based model of mobile money or saving outside of institutions (for example, in cash under the mattress or with family and friends). The hyperinflation and dollarisation experience has also undermined trust in banks and retirement funds as saving providers. The following quotes illustrate a common perception found in the qualitative research that mobile money is cheaper than banks, as well as more physically accessible.

Mmm bank charges are high, it eats your money whilst you are saving. Unlike eco-cash it doesn't eat your money when you are saving. Eco-cash charges are reasonable."
Farmer, Female, 27 years old

"To save in EcoCash you don't need to have a lot of money you can put USD2 or USD5 and the agents are always in a walking distance, I don't have to waste my time going to town to put my money in the bank and also there are no long queues at EcoCash."
Informal trader, Female, 31 years old

9.2.5. Regulatory issues to consider

The supply-side consultations and analysis highlight two main regulatory issues relevant to financial inclusion.

No provision of interest directly via mobile money allowed. The discussion above showed that MMOs are well-placed as savings providers of choice. However, they are limited in their ability to provide interest directly. There are no official regulatory guidelines on electronic payments, such as mobile money, in place. MMOs are required to apply for approval from the RBZ Payments Systems Division in order to operate. Acceptance of this application is provided via a letter of approval that will contain the licensing provisions set down by the supervisor. This approval process does not directly preclude MMOs from providing interest, but the current



market evidence is that approvals have not been granted for the direct provision of interest bearing accounts or credit provision by MMOs. Instead, they have been required to partner with banks as a distribution channel for bank held savings products.

Attempts to place regulatory controls on interest rates. RBZ attempted to introduce guidance on bank interest rates, and particularly those applied to low-income accounts, via a memorandum of agreement with the banking association in 2013. This was introduced in January 2013 and set aside in December 2013 due to tough market conditions making compliance difficult. A lower level of control was introduced in the form of a requirement by RBZ for banks to justify rate adjustments before being allowed to implement them (RBZ, 2013). These now exist in the form of interest rate guidelines on lending rates that came into effect in October 2015 (RBZ, 2015). The guidelines pertain to ranges of acceptable rates, between 6-18%. The implementation of this measure shows potential for further regulatory intervention in interest rates on savings products. Importantly, it reduces the ability of banks to price for risk and thereby lowers their incentive to source deposits to on-lend.

9.2.6. Product market findings

When evaluating the supply of savings products against the demand-side picture, the following key findings emerge:

- *Short-term, flexible savings products with convenient access points needed.* The combination of the declining incomes in Zimbabwe, the shrinking of the formal employment base and the increasing need for consumption smoothing and risk coverage mean that the demand for savings is largely for short-term products, with flexibility regarding the frequency of savings inputs. There is evidence of market response to this need with the recent introduction of low-KYC and mass market-targeted accounts. There is also an expressed need for convenient (non-branch-based) access points.
- *Mobile money enhancing saving directly and indirectly.* The advent of mobile money is the single most important trend in the formal savings market. It supports the development of the savings market directly through its own savings products and indirectly through providing the infrastructure to resolve access barriers for other providers.
- *Increased localisation of savings provision.* The usage discussion showed the prominence of family and friends, as well as saving at home and in assets as savings channel across need cases.⁷⁷ Despite decreasing usage of informal groups for saving, they still remain a prevalent provider. The shift away from these groups is likely to be caused by declining incomes reducing the ability of adults to commit to the regular savings provision of the groups. The benefit of close community ties can resolve trust and access issues and instil savings discipline, plus facilitates credit on the back of community savings. Furthermore, saving in assets provides an avenue for long-term savings in a market where this type of product is underutilised.

⁷⁷ Saving in hard currency is becoming difficult due to the multicurrency environment reducing the stock of locally produced currency, resulting in constrained supply. This can cause a push to other forms of assets, such as jewellery, livestock or houses.



9.3. Market for payments

Effective payment mechanisms are a requirement for the efficient provision of all other financial services and form a vital backbone for the provision of goods and services in the broader economy. Payments allow for the transfer of value between individuals and businesses, which can be either required – to fulfil an obligation for payment – or unrequired – as a transfer of funds without an underlying obligation. This section unpacks the key drivers for the market for payments with a view to exploring the gaps and opportunities for improving payments in Zimbabwe.

Key findings: Market for payments

- The need to make local payments, send and receive money and encash electronic funds is fundamental to people’s daily lives. Thus payments represent the most pronounced need across product markets and target markets, and are a key driver of banked status. Remittances also play an important role across target markets.
- Most local transactions are still in cash, which creates a need for infrastructure to facilitate cash reticulation.
- The advent of mobile money is the most significant development in the market in recent times. It has made significant inroads in money transfers and now represents the largest volume of (low-value) transactions. The rise of mobile agents is changing the access-point landscape. Indeed, payments and mobile money now dominate the broader financial inclusion landscape.
- Banks struggle to compete with mobile money in terms of reach of access points, pricing model and consumer trust and perceptions. They would need to adjust their business model to regain ground. Banks are increasingly leveraging partnerships with mobile money operators and money transfer operators to extend their reach.
- There is an efficient payment system, but it is undermined by missing system functions and limited effective interoperability, which are in turn exacerbated by an incomplete regulatory framework.

9.3.1. Need cases

Payments account for all the top need cases. Figure 57 shows the use of payments to meet the various need cases identified in section 6. For each need case, it indicates the percentage of adults using each of the four product types to meet that need case. It is evident that payments, shaded grey, are a prominent means of meeting most need cases – be they unique to payments or “general” need cases that can be served by a range of financial products.

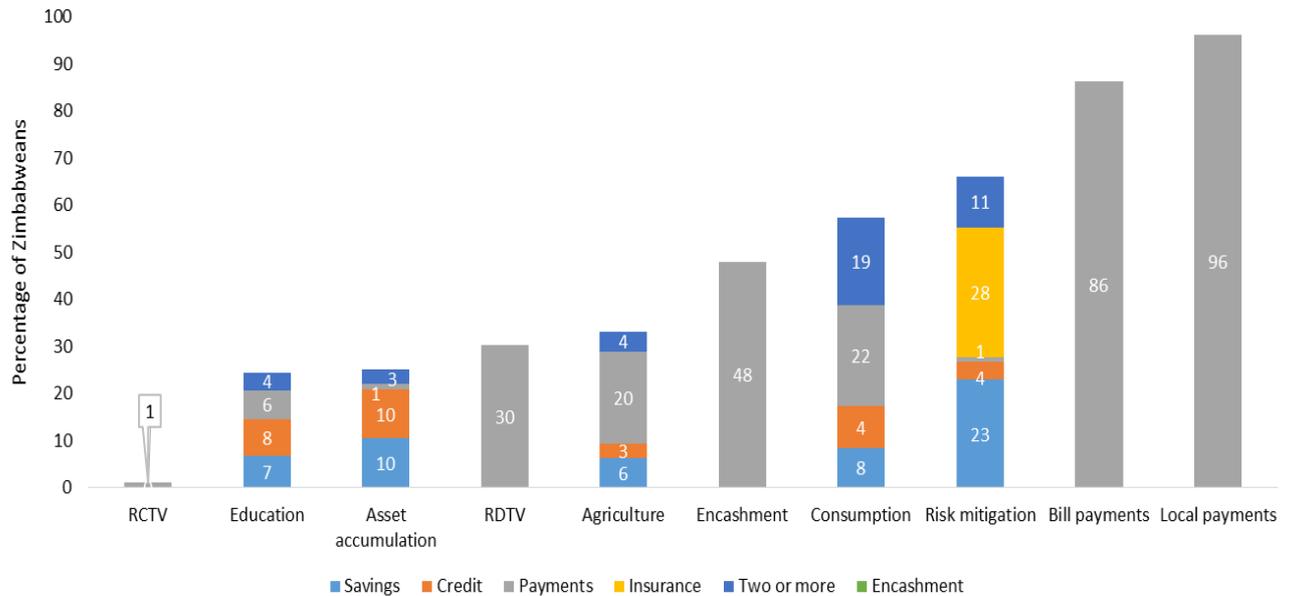


Figure 57: Need cases overview

Source: FinScope, 2014

Local payments the top need case, followed by bill payments. There are a number of need cases that are specific to payments, including local payments, bill payments, encashment and remote domestic transfer of value. Local payments are the most prominent need case, used by 96% of adults (6 731 000).⁷⁸ Over 90% of these transactions currently take place in cash. Thus there is still potential for financial service providers to make inroads, should they be able to provide a better value alternative (e.g. digital transaction products). Bill payments, which largely comprise airtime purchases, are the second most prominent need case. 86% of adults express the need to make such payments (FinScope, 2014).

Travel, home and communication expenses key drivers. Travel costs, running a dwelling and communication are singled out as drivers of frequent local and bill payments.⁷⁹ The top rated expenses for more infrequent expenditure (a few times a year) are education (53% of adults or 3 651 000 individuals), clothing (43% of adults or 2 954 000 individuals), medical expenses (39% of adults or 2 719 000 individuals), agriculture inputs (17% of adults or 1 155 000 individuals), and dwelling improvements (15% of adults or 1 022 000 individuals) (FinScope, 2014).

Encashment of remittances, salaries a key need. 48% of adults indicate a need for encashment (FinScope, 2014). The receipt of remittances or a salary is the key driving force for the need for encashment. While there is potential for funds received digitally to remain in digital form, in Zimbabwe this is unlikely to be the case. Most people use their bank accounts only as a mailbox and transact largely in cash.

Interviewer: “Do you have a bank account?”

⁷⁸ Local payments include payments where the physical presence of the payer and payee at the same location is required.

⁷⁹ The top weekly expenses were communication costs (for e.g. airtime purchases) stated by 43% of adults (2 994 000 adults) and expenses for transport (noted by 21% of adults or 1 433 000 adults). Key monthly expenses were of a similar nature: 34% of adults (2 386 000 adults) have to cover travel expenses, 27% of adults (1 887 000 adults) cover dwelling expenses, and a further 27% have monthly communication costs (1 865 000 adults) (FinScope, 2014).



Respondent: My husband had a CBZ (Commercial Bank of Zimbabwe) account but he no longer has an account because he is no longer working for the company which helped open an account and that was where he would get his salary from. He is now doing part time jobs paving tiles.”

Farmer, Female, 49 years old

One in three need domestic transfers. As discussed in section 6 remote domestic transfer of value (RDTV) and cross-border transfer of value (RCTV) refer to the unrequited transfer of funds across a distance. In Zimbabwe, the most prominent need case between the two is the domestic transfer of funds, which is used by roughly a third of adults. Given the current economic circumstance, only a handful of Zimbabwean adults are sending funds across the border (the need for those *receiving* cross-border remittances is one of encashment). The majority of these transactions take place via formal non-bank providers (see 9.3.2 for further details).

Important role for payments in non-payment-specific need cases: Consumption smoothing and farming inputs most common use for funds received through payments. Income received via payments products (e.g. remittance receipts) also plays a key role in providing funds to fulfil non-payment-specific need cases. This is particularly the case for consumption smoothing and farming inputs, with 37% and 20% of adults making use of payments for these needs, respectively. The third most prominent general need case for payments is education (FinScope, 2014).

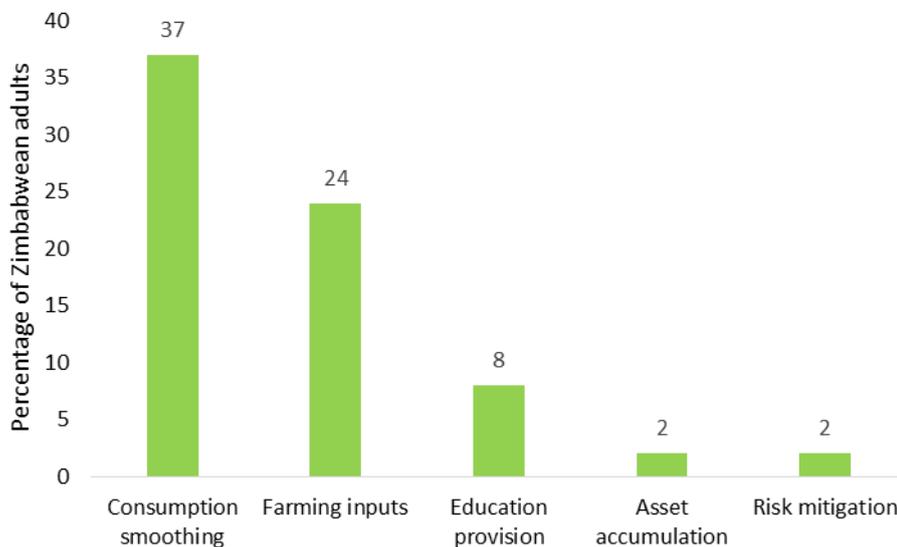


Figure 58: General need cases: percentage of adults using income received via payments for various need cases

Source: FinScope, 2014

9.3.2. Uptake of payment products



How does actual usage meet the needs analysed above? The analysis of payments usage considers three aspects: (i) use of transaction products as required transfers; (ii) use of remittance products as unrequited transfers; and (iii) the reach of various access points and devices needed to enable uptake.

9.3.2.1. Transactional products

Less than half of adults use formal products for transactions. As shown above, the majority of Zimbabwean adults have a need for local and bill payments. However, Figure 59 shows that just under half of adults are fulfilling this need via digital channels (43% of adults or 2 995 000 adults) (FinScope, 2014).

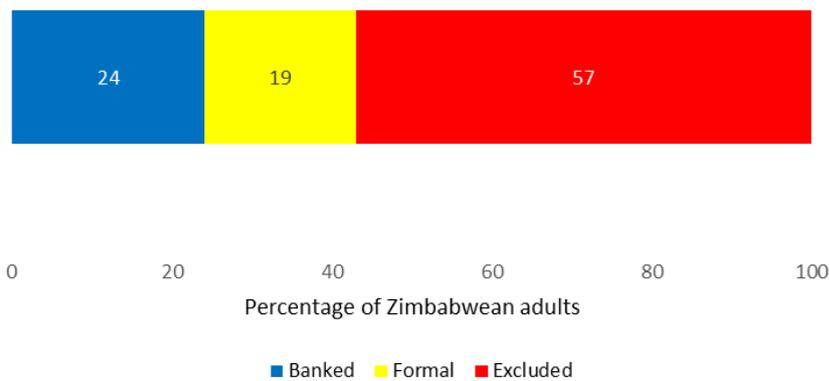


Figure 59: Payments access strand

Source: FinScope, 2014

Access strand understates non-bank formal. There is a large overlap in the usage of bank and other formal providers that is not apparent in the access strand. The access strand indicates that 24% of adults (1 696 000 individuals) make use of banks to transact, and a further 19% only use non-bank formal channels, that is, are not banked. However, when considering the total percentage of adults using non-bank formal payments, the figure rises to 31% of adults (2 146 000 individuals). Thus, there is an overlap of 12% with those that use banks (FinScope, 2014).

More urban and educated adults more likely to transact digitally. As Figure 60 indicates, there is a much higher level of uptake of transaction products in urban areas. This speaks to the fact that digital transaction access points are largely concentrated in urban areas (discussed later in this sub-section). Adults that transact digitally also hold higher education levels on average: 56% of the adults transacting digitally hold a secondary education and 16% hold a tertiary education, compared to the total adult average of 51% and 8% respectively. The majority of adults with a tertiary education in Zimbabwe are transacting digitally (FinScope, 2014).

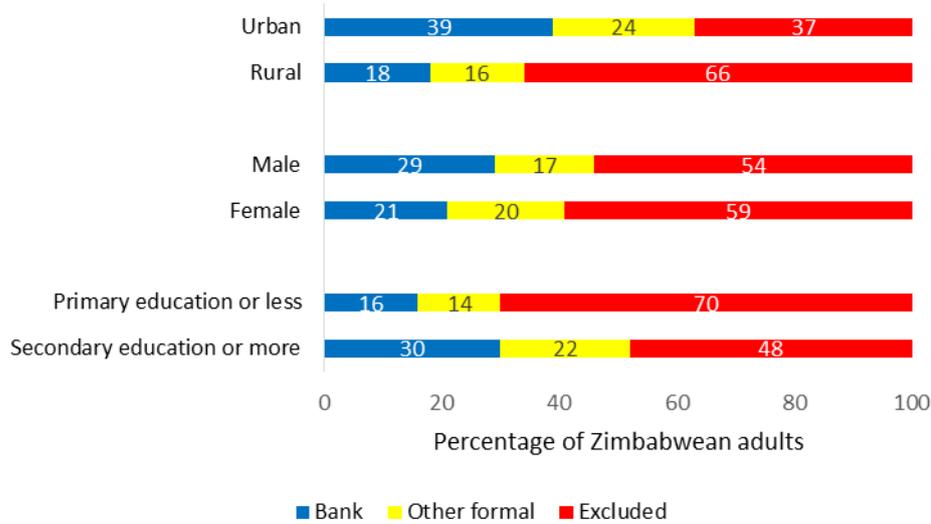


Figure 60: Geographic split of transactional product users

Source: FinScope, 2014

Salaried workers, farmers and remittance receivers key target markets. Proportionately, salaried workers have the greatest uptake of transaction products, as indicated in Figure 61. Farmers, despite having the second lowest proportionate take-up of these products, are the greatest users of transaction products in absolute numbers. Survivalist workers have the lowest levels of take up. Remittance receivers and salaried workers have the greatest likelihood of receiving their income via digital channels (FinScope, 2014).

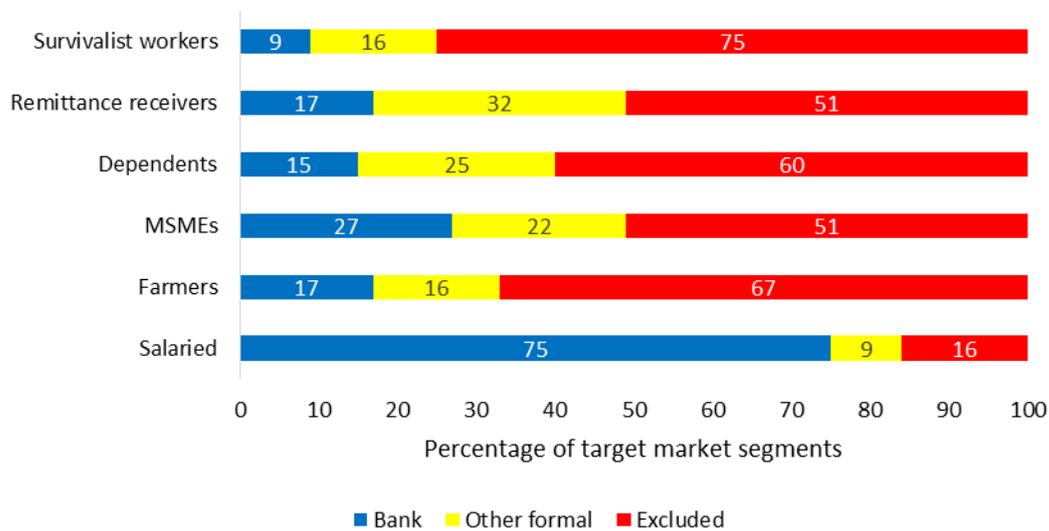
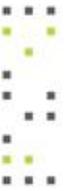


Figure 61: Transaction product uptake by target market

Source: FinScope, 2014

RTGS is the main channel for low volume/high value domestic payments. Figure 62 and Figure 63 provides a breakdown of values and volumes flowing through domestic transaction channels. As the centralised settlement system in Zimbabwe, most transaction value flows



through the Real Time Gross Settlement (RTGS) system⁸⁰. That said, there still remain a fair number of low-value retail transactions that are being processed on the RTGS platform, and therefore it directly competes with other payment modalities. Due to the settlement function of the RTGS platform, it will always reflect a disproportionate proportion of value within the NPS, for example, in 2014 it channelled 63% of the value of payments in 2014 (RBZ, 2015).

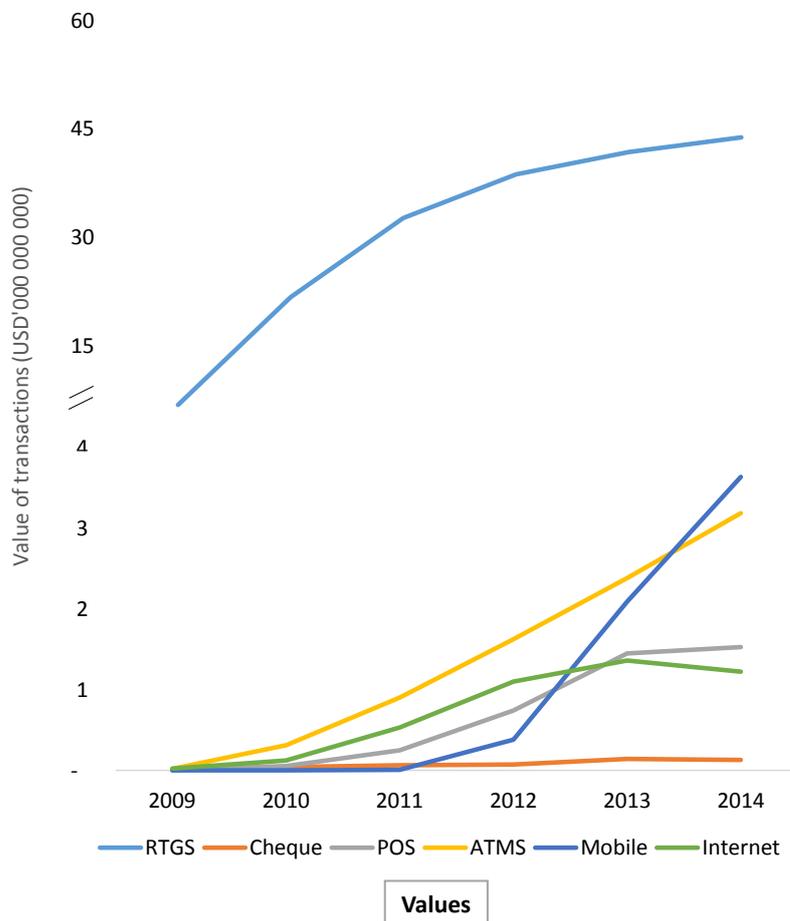


Figure 62: Values of transactions

Source: RBZ, 2015⁸¹

⁸⁰ Real-time gross settlement systems (RTGS) are specialist funds transfer systems where transfer of money or securities takes place from one bank to another in real time. Note: the use of the RTGS should be triggered for high value transactions across a number of payment instruments – namely, cards (via point of sale devices (POS)), ATMs and internet transactions – and therefore double counts with some of these instruments in Figure X below. The word “should” is important as during and following hyperinflation, there was widespread retail use of the RTGS to cope with the rapidly increasing values of transactions. Since this time there has been a steady upward trend in values of individual transactions flowing through the RTGS. A flat fee system has been applied to RTGS transactions to incentivise the use of the system only for higher values that justify the fee levels, ranging from USD 1.8 to USD 2.4 per transaction, depending on the time of day. However, consultations suggest that this is not high enough to disincentivise retail usage of the system for low value amounts. As systemically important system, it is important that the RTGS be protected against a breach of processing capacity crashing the system.

⁸¹ RBZ (2015). *NPS statistics*. Available at: <http://www.rbz.co.zw/nps-statistics.html> [Accessed: 14 September 2015]

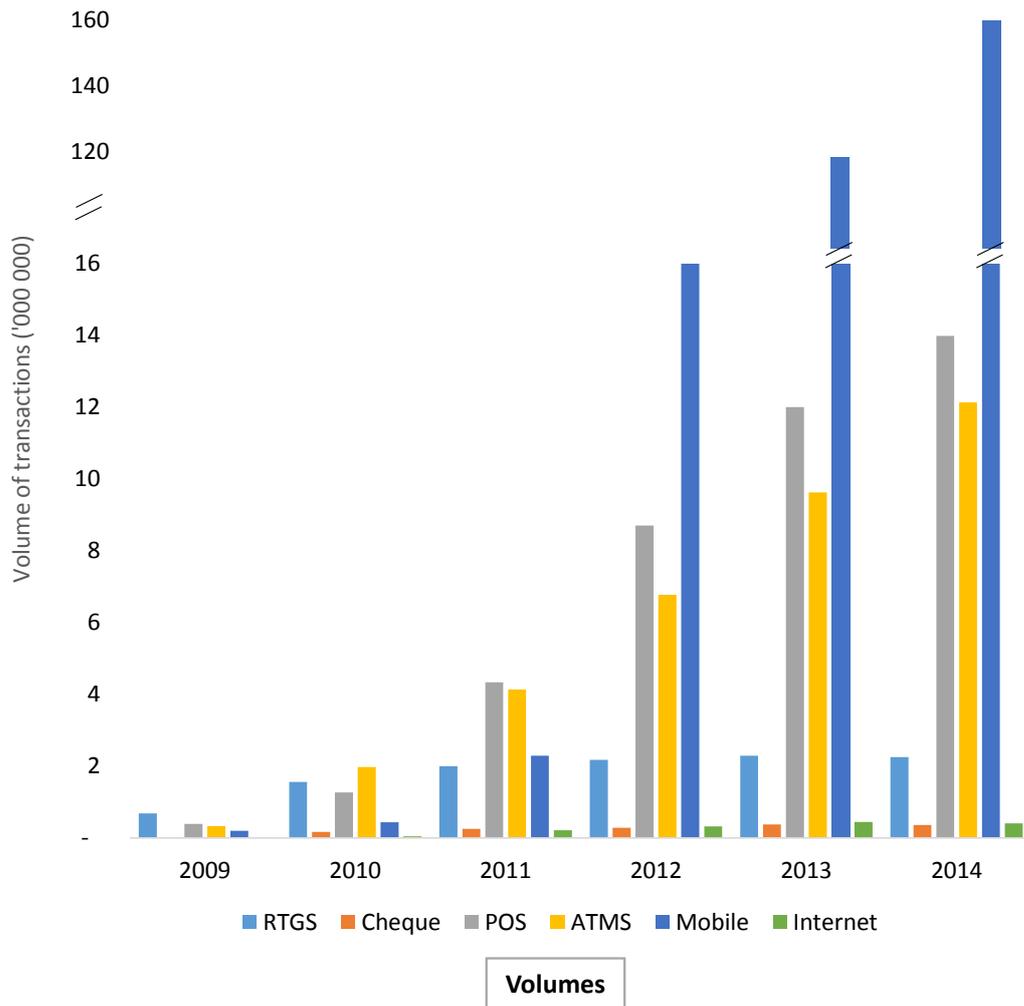


Figure 63: Volumes of transactions

Source: RBZ, 2015

Mobile dominates the low value/high volume space. The figures above show the dramatic rise of the mobile channel in both value and volume since its introduction in 2011. This channel includes both mobile banking applications and the use of mobile money operators' (MMO) products, but the dramatic rise is largely driven by the MMOs. The rise in values and volumes in the mobile channel have tracked each other. This shows a rise in consumer activity and a consumer base that utilises the service at fairly consistent low values. Transaction size averaged USD23 per average transaction in 2014, only USD4 up from the 2012 average of USD19. The discussion on access points below will consider the reach of each of the other channels that operate in this space.

Cash remains the predominant local transaction instrument. Despite the rapid rise of mobile money, transactions in Zimbabwe remain overwhelmingly cash-based. Figure 64 shows the payment instruments used for key transaction needs such as paying for food, clothes and school fees. In each instance, cash dominates. The USD is the most common currency type, used by 99.97% of adults (FinScope, 2014).

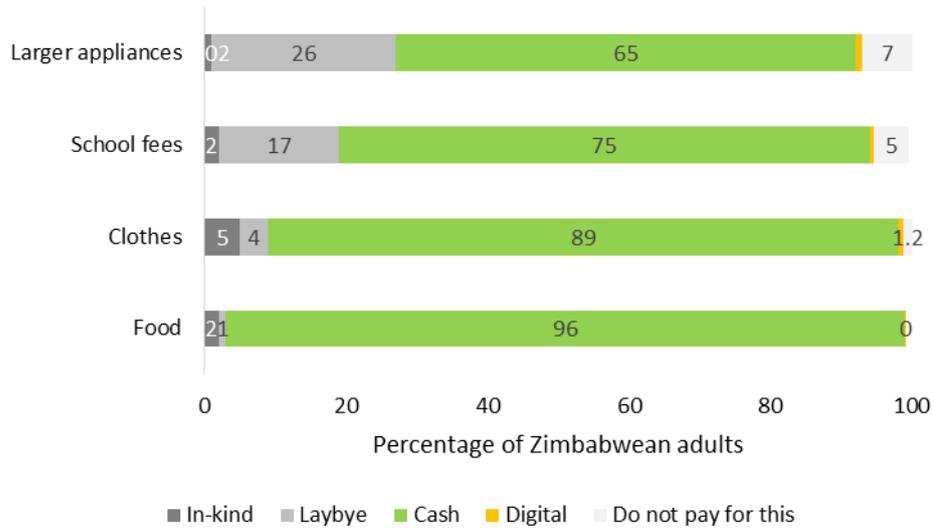


Figure 64: Payment instruments used for key transactional needs

Source: FinScope, 2014

A number of transactions could feasibly be done through bill payment avenues. The following quote from the qualitative research illustrates this.

Interviewer: “How do you make payment for your expenses?”

Respondent: “School fees, I just walked there and paid. Electricity for the past few months in a row, I was using EcoCash and for other council bills, when I am in town selling, I just walk to their offices and pay cash.”

Informal trader, Male, 56 years old

The use of cash is driven by the limited ability of merchants to accept digital transaction instruments, on the one hand (see discussion on access points below), but also by the fact that 83% of people receive their income in cash; converting cash to digital means for payment purposes adds an additional layer of effort and cost for individuals (FinScope, 2014).

Interviewer: “Oh okay, so what payment ways do you use?”

Respondent: “I use cash in all my payments even when I want to buy furniture.”

Farmer, Female, 27 years old

Cheques disappearing. After reaching a peak volume of just over 2 million cheques in October 2008, cheques have since reduced in popularity (BFA, 2012)⁸². As hyperinflation accelerated, the time period that the currency devalued in became shorter. For cheques, this meant that a cheque would actively lose real value in the time between writing and cashing in. This eventually reduced the usage of cheques and the negative perception it created has still not wavered. As said by BFA (2012), “this experience has impacted the market to such a degree that there remains very little use of checks in Zimbabwe and it appears unlikely that they will return. The RBZ has expressed that this reality is instead allowing them to focus priorities (and

⁸² “During the latter part of hyperinflation, cheques became a popular way to avoid carrying cartfuls of cash, and to save money by paying a sum that would decrease in real value by the time the receiver made it to the bank.” (BFA, 2012)



funding) on the development of other electronic channels that can support new technologies, such as card and mobile-based transactions.”

9.3.2.2. Remittances

Non-bank players dominate the remittances market. In total, 58% of adults in Zimbabwe send or receive remittances. 5% of adults use bank channels for sending or receiving remittances and a further 43% use only non-bank formal channels (mobile money operators and money transfer operators). Only 5% of adults use *only* informal channels or family and friends, respectively. However, when considering total uptake (not removing overlaps as is done in the access strand), the number of adults using informal channels rises to 10% (677 000), with 11% making use of family and friends (785 000 adults) (FinScope, 2014).

Table 16 breaks the remittances strand down into sending and receiving behaviour at domestic and cross-border level. Remittance senders are more likely to be urban and receivers to be rural.

	International (no. of adults)	Domestic (no. of adults)
Sending	80 000 (1% of adults)	2 226 000 (32% of adults)
Receiving	931 000 (13% of adults)	3 079 000 (44% of adults)

Table 16: Breakdown of remittances by type

Source: FinScope, 2014

International inward remittances prominent role. As shown by Table 16, 13% of adults received international remittances in 2014 (931 000 individuals)⁸³. Over the years there has been an upward growth trend in the value of inward formal remittances. Official statistics published by RBZ places remittance inflows at USD516 million for 2014 (see Figure 65). However, this does not account for informal remittance inflows, which may more than double this figure⁸⁴.

⁸³ The number of adults sending money to the diaspora is so small it is not statistically significant.

⁸⁴ See, for example, Truen & Chisadza, 2012, who estimate the bulk of remittances from South Africa to the rest of SADC to be informal.

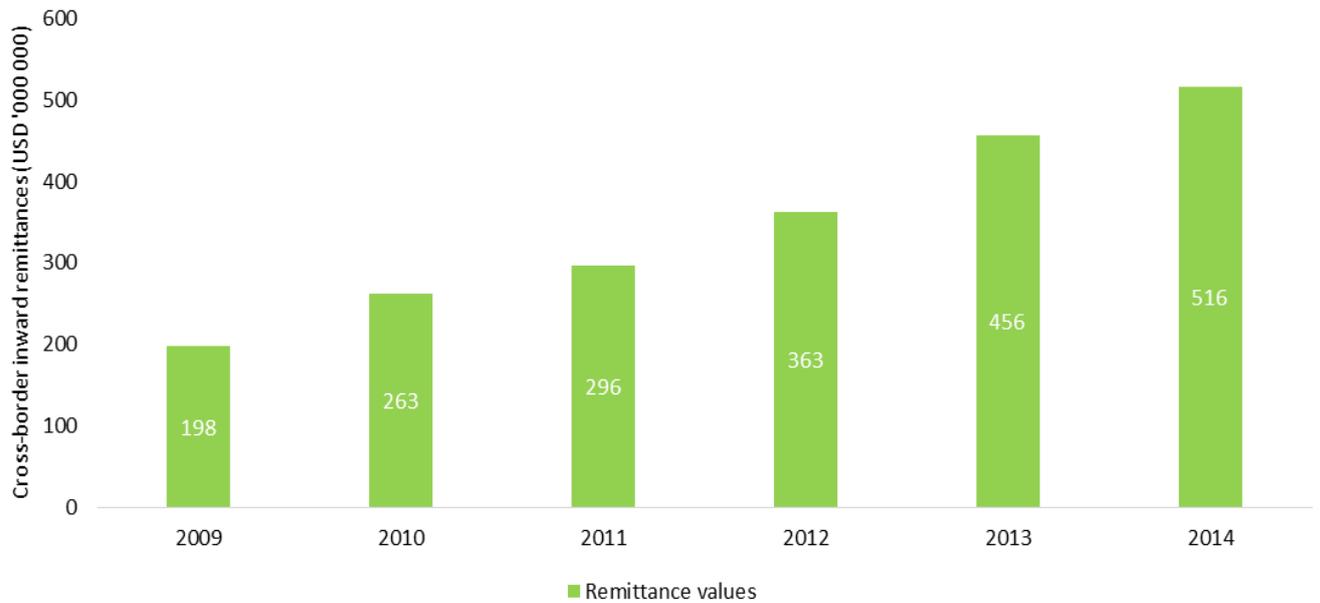


Figure 65: Cross-border inward remittances (2009-2014)

Source: RBZ, 2015⁸⁵

Domestic remittances equally important. Over and above international money transfers, the domestic remittance market is a key financial services sector in Zimbabwe. In 2014, almost a third of adults had sent remittances within the country, while 44% of adults had received a remittance (FinScope, 2014). As the qualitative research quote below shows, domestic remittances may be used to relay international remittances. In total, just over 1 million adults that receive remittances depend on these funds as their primary source of income (FinScope, 2014).

Interviewer: “Remittance, do your children in UK and SA send money and how much?”

Respondent: “Each of the two children in UK sends USD100 equivalent and the one in SA sends R1000. All this money is received by the child in Harare. He then sends me USD300 using EcoCash.”

Remittance recipient, Female, 59 years old

Remittances key across target markets. Remittance receivers are naturally the largest target market for remittances on a proportional basis. There are however a number of other target markets that also engage in remittances. Proportionately, salaried workers and MSMEs are the next key target markets for remittances. As highest income earning segments, they are net senders of remittances. The largest segment – the farmers target market – has the largest absolute number of adults taking up remittance products (1 227 000 individuals) (FinScope, 2014).

⁸⁵ Data received directly from RBZ



9.3.2.3. Access points

For transactions to take place, there need to be *points of access*. The spread of these access points and devices have a big impact on the potential for uptake. In line with RBZ terminology, “access points” refer to point-of-sale (POS) devices and ATMs for cards, agents and phones for mobile banking, and branch networks for over-the-counter (OTC) transactions.

Shift to agents with mobile dwarfing the rest. Figure 66 provides an overview of the number of access points in Zimbabwe. Mobile money channels provide the highest number of access points by a large margin. With an average of 334 agents per 100 000 adults, MMOs have a much greater spread of client facing channels than other financial service providers.

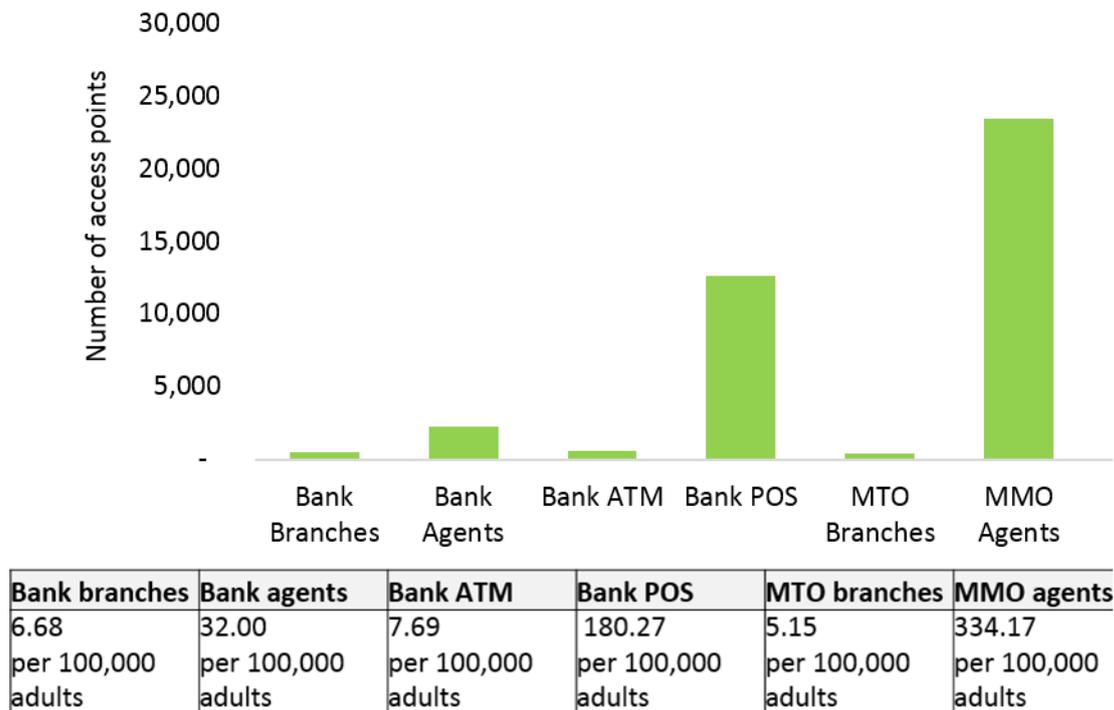


Figure 66: Access point infrastructure (2014)

Source: POTRAZ (2015), RBZ (2015)

Mobile money extending bank and MTO reach. While bank and MTO infrastructure is much lower than that of MMOs, MMOs are extending the reach of card instruments and POS devices by issuing debit cards. A 2013 GSMA study noted that EcoCash had recently driven 10 000 merchant POS into the market, an improvement on the 4 800 devices at that point (Levin, 2013). Both EcoCash and TeleCash have subsequently released linked debit cards that are able to operate on MasterCard and ZimSwitch systems, respectively. Thus the rise of mobile money has also increased the reach of the banking sector.

Point of sale access points gaining ground. In regional perspective, the number of bank access points have increased. Zimbabwe was given a low regional ranking by a 2013 study assessing SADC financial services infrastructure (Redflank, 2013). At the time of the study there were 1.03 ATMs per 1000km² and 20 POS devices per 100 000 people. Since then, there has been a push of POS into the market as outlined above. Figure 67 considers the growth of access points



since 2013, based on RBZ data. Although not as strong as the growth in mobile money agents, the number of POS devices has grown strongly from 2014 onwards.

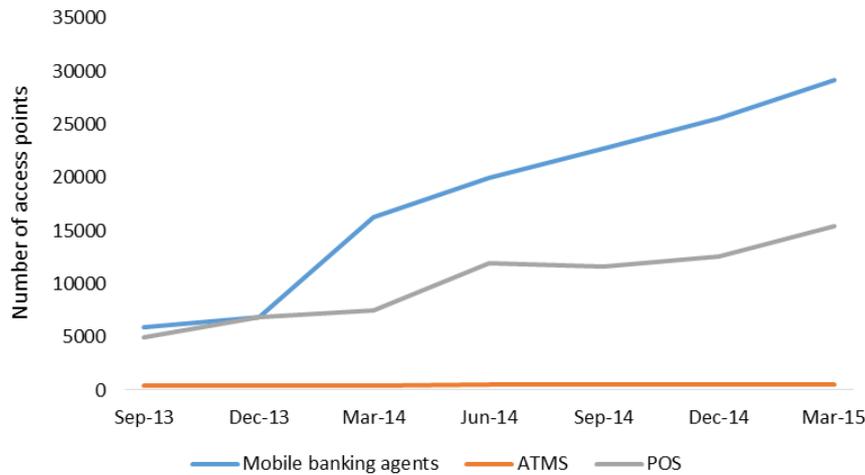


Figure 67: Access point infrastructure growth (Q3 2013-Q1 2015)

Source: RBZ, 2015⁸⁶

No growth in ATM network. The number of ATMs has remained constant in recent years. Supply-side consultations (2015) indicated that underlying this has been a match between ATMs of some banks closing, while the stock of others increases. This is in part due to the added maintenance considerations that result from the lower quality paper of USD notes (BFA, 2012). Despite low overall growth, this access point still drives transaction based revenue for providers and remains a key resource for access to cash in an economy dependent on external cash stocks.

Low actual usage of card-based access points. The question remains whether the growing physical access indicated above is in fact *effective* access. Concentration of POS devices and ATMS in urban areas, as well as a lack of enforced interoperability and functionality on these systems reduces outreach (supply-side consultations, 2015; BFA, 2012).⁸⁷ It is also notable that despite the low penetration of ATM and POS devices, these devices are not used at full capacity (supply-side consultations, 2015). Thus accessibility, alone, does not explain low usage. This ties into the evidence of increasing bank account dormancy discussed in section 8.2. Furthermore, as shown by Table 17, the average value and volume of card based transactions have reduced year-on-year from 2013 to 2014. The low volumes and aggregate annual transaction values indicate low overall usage of bank cards.

⁸⁶ Data supplied directly by the RBZ

⁸⁷ The low quality of the paper of USD currency has caused issues with the functioning of ATMs, which have resulted in many machines being unreliable for customers or shut down permanently (BFA, 2012). Issues with reliable connectivity for devices were also stated as a functionality problem.



		2013	2014
Value	Average POS transaction value per card (USD)	639	418
	Average ATM transaction value per card (USD)	1 049	873
Volume	Average number of POS transactions per card	5	4
	Average number of ATMs transactions per card	4	3

Table 17: Value and volumes of card transactions through ATM and POS devices (2013-2014)

Source: RBZ, 2015

Strong business case supporting growth in agent network. Mobile money agents in Zimbabwe are generally either small MSMEs, such as a local retailer or kiosk operator, or a larger networked business, such as a retail chain, the post office or a petrol station chain. Aside from the small kiosk, this means that the business case for these agents is an additional revenue line to supplement their current activities. A mystery shopping exercise with a small sample of MMO agents in Zimbabwe returned the feedback that agents were generally satisfied that the revenue received from mobile money activities was “worth it”. The contribution to revenue for these respondents varied from 10%-70%. Agents earn this commission on registration of clients and cash in/cash out transactions.

9.3.3. Provision by financial service providers

9.3.3.1. Market overview

Payment system overview

Figure 68 provides an overview of the components of the national payment system. A more detailed overview of each player is provided in Appendix H (overview of NPS providers). On the left-hand side, the figure shows the client-facing touch points. Next to that are the providers for these services and the transactions that take place between these providers and their back-end infrastructure of switches (including ZimSwitch, the international switches and SIRESS⁸⁸, a regional switch). Clients either interact with banks directly, or via payment service providers (PSPs), money transfer operators (MTOs) or mobile money operators (MMOs) as primary service providers, who in turn are required to link into the banking system. From here, the diagram depicts the back-end clearing and settling that supports these transactions (on the right-hand side). This starts with the connections of the various financial service providers through the switches and then moves to the connection to the back-end system Real-Time Gross Settlement (RTGS) system hosted at the RBZ.

⁸⁸ The SADC Integrated Regional Electronic Settlement or SIRESS is a SWIFT based payment system for cross-border transactions that take place in the SADC region. The potential for an electronic clearing function coming into the system is being explored, but currently it only provides a settlement function. More information available here: <http://www.sadcbanking.org/siressliveparticipants.aspx>

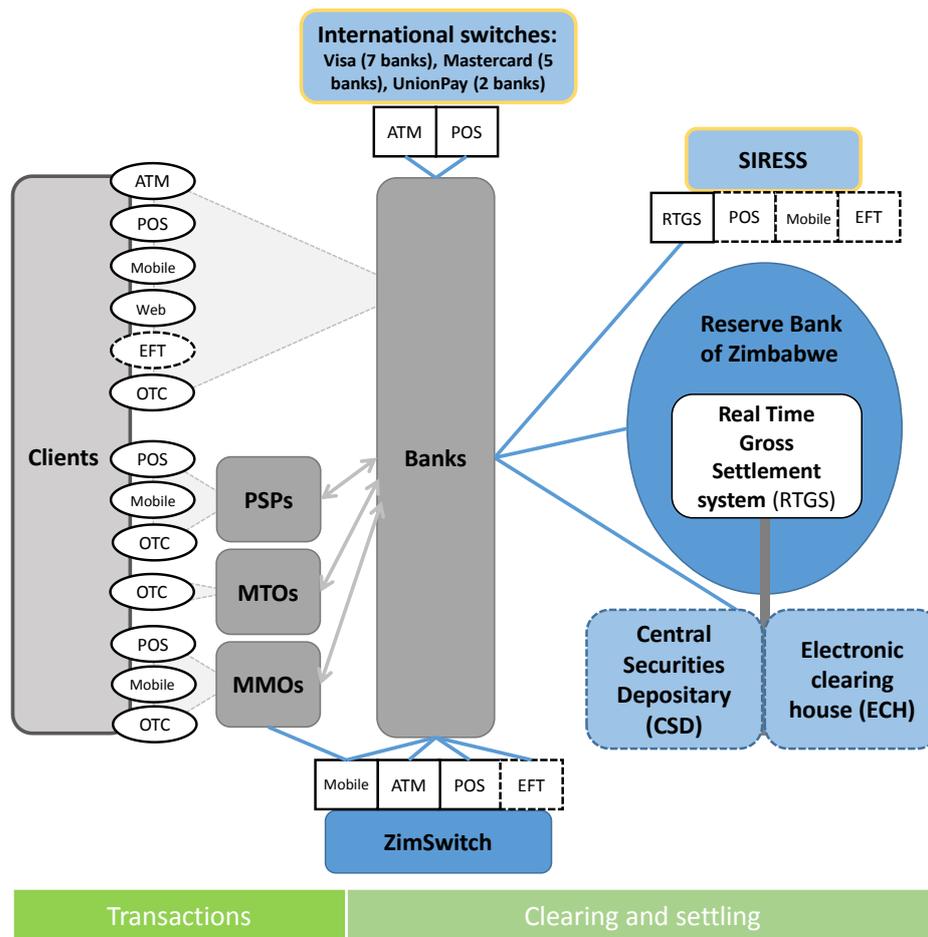
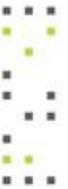


Figure 68: Key NPS components and their interlinkages⁸⁹

Source: Authors' own, based on research and consultations

Notable aspects in the system are as follows:

- Wide utilization of mobile client facing elements, missing EFT functionality.* Zimbabwe consumers have a range of in-person-to-digital client-facing channels providing access to payments. The market is fairly advanced for the region in terms of access to these products via mobile (for banks, PSPs⁹⁰ and MMOs), but is currently missing the means to transfer account-to-account (a2a) via electronic funds transfer (EFT). The ability exists within the system for this function, but it has not yet been put in place by the system players. One notable advanced function is a platform built into the national switch that enables true a2a functionality for mobile banking (ZimSwitch Instant Payment Interchange Technology (ZIPIT)).⁹¹

⁸⁹ Acronyms: ATM – Automated Teller Machine; POS – Point-of-sale device; EFT – Electronic Funds Transfer; OTC – Over-the-counter; PMT – payment; PSP – Payments Service Providers; MTO – Money Transfer Operators; and MMO – Mobile Money Operators

⁹⁰ One systemically important PSP to note, in particular, is PayServ. They do not process on their own behalf, but constitute possibly the largest EFT or debit order originator.

⁹¹ “The ZIPIT platform will enable financial institutions in Zimbabwe to offer mobile banking services over GSM networks using any basic GSM5 mobile phone. ZIPIT is designed to enable interconnectivity between banked mobile subscribers by allowing money to be sent instantly to any cell phone in Zimbabwe. The service is a fund transfer mechanism that enables customers of banks to send money instantly to any other ‘ZIPIT Ready’ bank, in real time, similar to that of the RTGS system.” (BFA, 2012, pp. 15) ZIPIT was configured to provide funds transfer functionality for bank backed products over mobile networks, and more recently it was enabled to clear transaction to MMO mobile wallets, hence providing clearing connectivity directly between the



- *Low effective interoperability between system players.* There are four financial service provider types on the market providing payment services; namely PSPs, MTOs, MMOs and banks. Banks are a unique type provider in that they serve both the end customer and other FSPs as their client base. To support these FSPs there are three switch categories active in the market; namely, a privately owned switch (ZimSwitch), international switches (Visa, MasterCard and UnionPay) and a regional switch SIRESS. While all banks are connected to ZimSwitch and a fair proportion to the international switches, the supply-side consultations (2015) noted that full effective interoperability has not yet been achieved in the system.
- *Competent system function despite lack of automation and centralised clearing.* At the back-end of the system, clearing and settlement is either taking place through the RTGS⁹² or Zimbabwe Electronic Transfer and Settlement System (ZETSS), on a bi-lateral basis between the banks, through international card associations' correspondent accounts, or through multilateral agreements effected by private operators. The payment services provider PayServ assists with the ease of payment information interchange for some financial service providers, but final settlement still has to be handled directly. Zimbabwe is currently missing the system components of an Electronic Clearing House (ECH)⁹³ and Central Securities Depository (CSD) – two elements that could be used to increase the automation and thereby efficiency of the system.

Provider overview

MMOs have by far the most clients. Table 18 provides an overview of the providers and products active in the payments market. MMOs (46% of adults are registered MMO clients) and MTOs (26% of adults have either sent or received funds through an MTO) are the biggest players in terms of client numbers. They have rapidly growing infrastructure and a positive brand association that should further strengthen their position. Banks have three times fewer clients than MMOs, in reality even less if account dormancy is taken into account. Informal providers on the whole hold a lower market share, but one which remains significant at just short of 1.5 million adults (21% of adults). Chisasa (2014) identified convenience or speed of delivery, as well as an inability to access formal channels as key drivers of informal service usage.

Interviewer: “Do you have a bank account?”

Respondent: “No I only have EcoCash, that’s my bank.”

Farmer, Female, 27 years old

client facing element of these providers, resulting in account to account connections and providing settlement functionality between the institutional Trust or suspense accounts used in the issuance of mobile money.

⁹² As discussed in the Uptake discussion, the RTGS is currently also being used for retail transactions, which is inappropriate for a systemically important payment system such as an RTGS.

⁹³ There is the possibility of linking to a regional clearing house for intra-regional clearing once it is developed and if regulatory hurdles on the use of the regional ACH for domestic clearing and settlement are revisited at SADC Member State to allow for local jurisdiction determination.



		No. of clients	Transactional account	Electronic wallet	Remittances	Other payment products
Banks		991,000	✓		✓	✓
Mobile money operators		3,246,000		✓	✓	✓
Money transfer operators	operators	1,824,000			✓	
	Post office	97,000			✓	✓
Informal providers	Bus/taxi drivers	599,000			✓	
	Friends or family	864,000			✓	
Payment service providers		Unknown				✓

Table 18: Payments provider overview by number of clients and types of services rendered

Source: FinScope, 2014; stakeholder interviews, 2015

MMOs, MTOs also largest players for remittances. Figure 69 provides a breakdown of remittance channels by number of sending and receiving clients. All payments providers are involved in the remittances market to some degree. MMOs and MTOs are the dominant players, but informal providers are also active options, especially for international receivers. Banks and the post office also serve this market, in some cases for in-bound international remittances, but largely for encashment purposes.⁹⁴

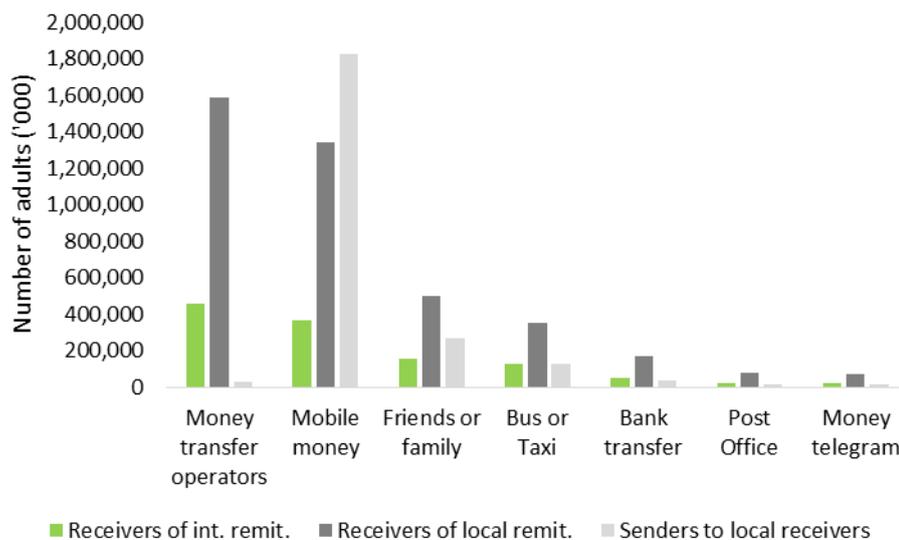


Figure 69: Remittance providers for receivers and senders

Source: FinScope, 2014

Linkages between providers. In many ways, the payments market is a connected market where the fate of one provider directly impacts the others. Some of the main connection points are: (i) linked transaction accounts between the banks and MMOs; (ii) product partnerships (for example, between remittance providers to provide the sending/receiving leg to a remittances transaction); and (iii) infrastructure provision (for example, the ATM, POS and cash reticulation infrastructure provided by banks or the telecommunications connectivity provided by mobile network operators connected to the MMOs). A unique aspect for the

⁹⁴ There is potential that uptake of remittances via the post office has increased in significance since the FinScope survey was conducted. POTRAZ (2015) reported that the combined value processed through ZimPost’s ZipCash product and their mobile money agency was just over USD 1.4 mil for the first half of 2015. While this is combined with the dominant player of mobile money, it does speak to potential for increased usage of the post office’s direct product offering.



Zimbabwean landscape is that currently the private banks are the only formal providers replenishing cash stocks in the country, and therefore provide a key infrastructure support to other FSPs that is usually the central bank’s domain.

Partnerships extending reach. Table 19 provides examples of the multiple partnership combinations for remittances (domestic and international) in Zimbabwe. The wide partnership base and expanding footprint of the partners (see section 9.3.3.2 below) has made remittances accessible across Zimbabwe in urban and peri-urban regional centres.

Sending entity	Receiving entity
Bank (foreign or local)	Bank (foreign or local)
Foreign bank	Local partner (MTO or retailer)
MTO	MTO (internal or partner MTO)
MTO	Partner (MTO, bank, retailer, post office or MMO)
Post office	Post office (foreign or local)
MMO	MMO (internal or partner MMO)
MMO	Partner (MTO, bank, retailer, post office)

Table 19: Examples of remittance partnerships (domestic and international)

Source: Authors’ own

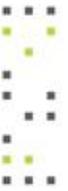
9.3.3.2. Product offerings

Payments products are not mutually exclusive. For example, a person may have a bank account to receive their salary, may transfer money using EcoCash and make day-to-day purchases in cash. This section explores the transactional and remittance product landscape, respectively. For transactional products, this includes account-based products to store value for transactions, as well as products that facilitate the fulfilment of a required payment transaction – for example, an airtime voucher sale or the payment of a utility bill. The remittance products explored cover both international and domestic money transfers that take place on an unrequited basis.

Transactional products

Mobile money most cost effective transaction fee pricing and structure. MMOs provide a comprehensive payments offering, similar to that of banks. Transactions are considered the main revenue source for both banks and mobile money providers (see section 8.2). Table 20 indicates the average transaction fee breakdown across providers for banks and mobile money, respectively. The first part of the table compares average costs across banks to that of mobile money. The second part builds a hypothetical entry-level transaction profile to test what monthly costs could accrue to customers and puts banking and mobile money fees in Zimbabwe in regional comparison. The bottom line shows the estimated total value in US dollars for easy cross-country comparison. Comparatively, banks are more expensive on their average transaction fee breakdown, as well as when inputted into the transaction profile⁹⁵. It is notable that not all of the MMO providers’ transaction costs are cheaper. However, the qualitative demand-side research indicated that consumers are increasingly price sensitive

⁹⁵ Moreover, the transaction profile assumes that transactions take place mainly in cash. If more transaction fees are taken into account, this would make them even more expensive, especially since most banks will still stipulate a minimum fee, ranging from USD2-USD25, even when charging on a percentage basis. These base minimums are only feasible for large value transactions and therefore cut out a wide consumer base for lower transaction values.



and prefer the fact that, for mobile money, they are only charged on a discrete basis, with no monthly fee as is the case for bank accounts.

Transaction fee overview: Zimbabwe						
		Bank (average) (USD)	Mobile money (average) (USD)			
Account fees		4	-			
Withdrawal costs (per USD1, USD5, USD10 and USD400)	1	0.96	0.15			
	5	0.98	0.30			
	10	1.01	0.60			
	400	0.95	4.90			
Deposit costs		Free	Free			
POS transaction		0.50	0-3.60			
Bill payment charge		N/A	0.15-2.55			
Transaction profile						
	Zimbabwe – current account (USD)	Zimbabwe – mobile money (USD)	Malawi (M)	Swaziland (E)	South Africa (ZAR)	Lesotho (LSL)
Monthly service fee	4	0	1029.63	3	8.53	-
ATM withdrawals (w/d: USD10 each)	3.1	1.86	48.14	4.67	5	4.83
Statements requested – ATM	0	0.06	6.43	4.16	3.67	2.74
Deposit (USD50) – counter	0	0	0	21.23	12.50	13.70
Estimated monthly cost	7.1	1.92	2457.35	59.14	31.67	47.73
Equivalent dollar value	7.1	1.92	5.02	4.64	2.49	3.75

Table 20: Overview of transaction fee and average profile

Source: Author's own calculations, based on mystery shopping and published fee schedules.

Evidence that bank models are shifting. A handful of banks are pioneering transactional accounts that have no monthly service fee, but do apply transaction limits in line with a reduced KYC account. Reduced KYC accounts are those that only require a proof of identity to open. Examples of these include CABS' TextACash account and CBZ bank's SmartCash account (CABS, 2015; CBZ, 2015).

Box 11: Diaspora targeted for financial services provision

Banks and other payments providers are moving beyond the borders of Zimbabwe for their product provision to target diaspora. As discussed, Zimbabwe has a significant diaspora population. Outside of the remittances link to this group, FSPs are beginning to explicitly target a range of transactional bank accounts, bill payments, savings, credit and insurance products to this target market. This is



either being done through the development of diaspora specific products, such as the diaspora current accounts at Steward Bank or Ecobank (Steward Bank, 2015; EcoBank, 2015), or through creating easy access to currently existing products through companies that facilitate international purchases, such as purchasing electricity through Qikpay or the range of insurance, banking and investment services on ZimSelector (Qikpay, 2015; ZimSelector, 2015).

Remittances

MTOs cheapest for low-value remittances. The cost of remittances comprises the transaction fee charged as well as, in the case of international remittances, the conversion value (or spread) on the currency exchange. Table 21 compares the total transaction cost across providers for remitting three indicative amounts. All providers, with the exception of MMOs, only charge the transaction fee to the sender of the remittance. A partnership between OK Zimbabwe and Kawena (a South African wholesaler and a Zimbabwean retailer) is the cheapest channel with zero transaction fees levied, although the cash-out in this transaction is limited to 30% in cash and the rest in-kind. Following this, MTOs provide the lowest transaction fees for low value amounts sent, while MMOs provide more competitive fees for higher values remitted. Remittances through foreign banks attracted the highest fees.

	USD 50	USD 100	USD 150
International			
Wholesaler-retailer	0	0	0
MTOs	2.50	4.58	7.25
Foreign bank (SA)-partner	5.52	6.34	6.50
Post Office	8	8	8
Domestic			
MMOs (total):	2.58	4.51	5.92
MMOs - Sending	0.91	1.62	2.17
MMOs - Receiving	1.66	2.89	3.75
Post Office	2	4	5

Table 21: Cost to remit across key providers (USD)⁹⁶

Source: Authors' own, from various published fee schedules and mystery shopping

Option to cash-out remittances in-kind. Not all remittances are sent in the form of convertible funds. Some channels enable the sender to directly purchase goods for the recipient, such as Qikpay that enables electricity purchases or World Remit for airtime transfers. Yet others require the recipient to cash out a portion of their remittances in-kind, such as OK Zimbabwe's Kawena service (Qikpay, 2015; World Remit, 2015; Kawena, 2015).

9.3.4. Barriers

The table below summarises the main access and usage barriers to greater use of digital transactions identified through the analysis. It indicates those factors (proximity, affordability and eligibility) that would preclude a person from gaining access to the services. In addition,

⁹⁶ Only South African banks were surveyed to ascertain average remittance costs. This is due to the high proportion of migrants that have settled in South Africa.



the demand-side research identified a number of *usage* barriers, that is, factors that discourage usage even if a person technically would have access to a product or service. Red indicates a primary barrier, while orange denotes secondary barriers.

Access barriers		
Proximity	<ul style="list-style-type: none"> Access to FSPs predominantly urban based, including digital access via POS and ATM. This barrier is reducing due to the growing network of mobile banking agents. 	
Affordability	<ul style="list-style-type: none"> Cost noted as a secondary decision factor for consumers. 	
Eligibility	<ul style="list-style-type: none"> Registration of address and I.D. required Requirements of international remittance providers preclude undocumented migrants from remitting through formal channels 	
Usage barriers		
Trust	<ul style="list-style-type: none"> Reduced trust in the reliability of FSPs following hyperinflation Issues with transaction completion due to network and system failures reduce trust in transactional products 	
Financial capability	<ul style="list-style-type: none"> Interaction with payment systems can require a digital interface that is handled by the client. In these scenarios, the skill to utilise technology can be a barrier, although high education levels reduce the impact of this barrier in Zimbabwe. 	
Door step barrier	<ul style="list-style-type: none"> Perception of low income earners that they will not be able to afford a bank account – banks are “not for me”. 	
Hassle factor	<ul style="list-style-type: none"> Low outreach of digital access points increases the need to use branches. This creates the hassle factor of dealing with overcrowded branches of FSPs. 	

Table 22: Overview of payments barriers

Source: Authors' own

Proximity most important access barrier. As indicated in Figure 70, proximity is the single biggest access barrier, especially for the banking network. As indicated in the discussion of access points, traditional financial services infrastructure is predominantly urban. But access is low even for urban adults: only 9% of adults (595 00 adults) are within 30 minutes' reach of a bank branch, reducing to 5% of adults for ATMs and 3% of adults for a POS device, respectively (FinScope, 2014). As shown by Figure 70, alternative distribution points, such as retailers or mobile money agents, are in much higher proximity. The potential exists for FSPs to leverage these alternative local touch points, as well as the high mobile penetration, to reduce proximity barriers.

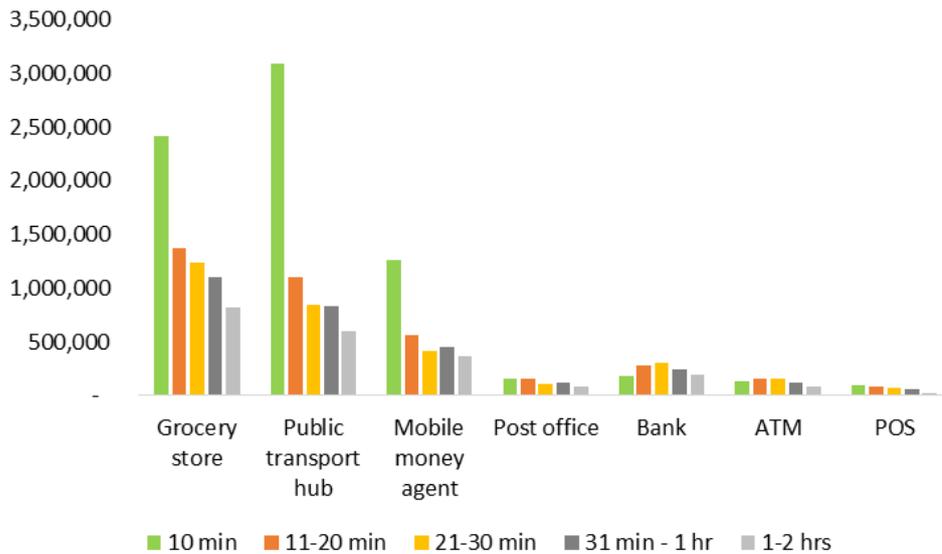


Figure 70: Travel time for key payment access points

Source: FinScope, 2014

Affordability driven by perceptions. The discussion above showed that bank products pose higher affordability barriers than mobile money products. The qualitative demand-side research showed that consumer perceptions of pricing models put banks on the back foot. In particular, the presence of a monthly service fee on bank accounts is seen as a deterrent, even if per-transaction charges on mobile money would amount to higher monthly outlays.

“To save in EcoCash, you don’t need to have a lot of money, you can put USD2 or USD5 and the agents are always in walking distance, I don’t have to waste my time going to town to put my money in the bank and also there are no long queues at EcoCash.”

Informal trader, Female, 31 years old

Interviewer: “Why do you not have a bank account?”

Respondent: “I don’t have enough money to put in a bank and I don’t have the requirements to open a bank account. I also heard people say that banks eat people’s money.”

Informal trader, Male, 17 years old

Convenience just as important. Chisasa (2014) found that cost was a secondary decision factor for choosing a remittance provider when compared to the convenience of access. Respondents had favourable perceptions of MMO’s remittances services, both on the aspect of cost, as well as convenience of access (as shown by the quote below).

Interviewer: “In terms of sending money what do you use?”

Respondent: “I send money through EcoCash. That is the easiest, fastest way of sending money these days. EcoCash is available, affordable and with less charges.”

Government worker, Female, 39 years old



KYC controls limiting access. Where eligibility is concerned, know your customer (KYC) account opening requirements are the main barrier. Banks and MTOs require a prospective customer to provide proof of identification as well as proof of address when opening an account or sending a remittance. However, MMO registrations and receiving a remittances requires lower KYC controls of only a proof of identification. A handful of banks are pioneering KYC-“light” accounts that allow a customer to open an account with just their ID, subject to transaction limits. Various studies have documented the fact that KYC controls in the sending country, notably South Africa, push international remittances by undocumented migrants into the informal sector⁹⁷.

In addition to these access barriers, the qualitative demand-side research identifies a number of usage barriers:

People trust mobile money rather than banks. The period of hyperinflation created an environment in which overall trust in FSPs was severely reduced. Mobile money is the one exception:

Interviewer: “How do you feel about having a bank account?”

Respondent: “I never had a bank account, but some people complain about the charges and in 2008 banks closed and they went away with people’s money, so mmm, I don’t like banks.”

Farmer, Female, 27 years old

“The banks, ah, I know of many but I don’t trust the banks because of the charges, so we only trust the EcoCash and in fact EcoCash agents are everywhere”

Informal trader, Male, 41 years old

However, insufficient transaction completion due to connectivity issues has the potential to undermine trust in mobile money. The RBZ estimates that the average uptime in the market is 90% (supply-side consultations, 2015). This means that approximately 10% of transactions are failing.

High education levels reduce financial capability issues. Where payments services have a digital client interface, the skill to utilise technology can be a barrier. This was identified as a barrier for some in the qualitative research, as the quote below indicates. However, high education levels reduce the impact of this barrier in Zimbabwe.

Interviewer: “You also use EcoCash [for remittances]?”

Respondent: “No I can’t send her through EcoCash because she does not know how to read, but I use bus driver that drive buses going to my home village. Sometimes I use people who are going to the village.”

Survivalist worker, Female, 31 years old

Doorstep barrier for bank transactional accounts. The qualitative research also showed that some respondents perceive their income levels to be too low to qualify for a bank account. Given the fact that zero-cost bank accounts are being introduced, this will be an important perception to challenge.

⁹⁷ See, for example, the following studies available at www.finmark.org.za: Truen & Chisadza (2012), Bester et al (2010).



Interviewer: “Do you have a bank account?”

Respondent: Ummm no. I think the money is too small for a bank account. I have never used banks because I don't think I would qualify.”

Farm worker, Male, 29 years old

9.3.5. Regulatory issues to consider

No legislation pertaining to electronic payments. The National Payment Systems Act (2001) does not contain any reference to the use of electronic payment instruments (including cards and mobile money). This has left a regulatory gap on supervision of these instruments and has caused the RBZ and the telecommunications regulator to put in place a Memorandum of Understanding (MOU) as a stop-gap measure. Electronic payment guidelines that will address these issues were in draft format at the time of publication.

Interoperability is not mandated. Interoperability is not mandated in current payment systems legislation. It is a vital aspect for efficient and convenient access to payments products and one which is often stymied by market competition.

Consumer protection not provided for in legislation. Another gap in current legislation is consumer protection considerations. There is currently no easy means for consumers to report and bring to resolution market abuses.

Anti-competitive market behaviour requiring oversight. Consideration is needed over competition issues arising from mobile network operators providing infrastructure for the financial services, while also operating in this sector through their subsidiary mobile money operators.

9.3.6. Product market findings

Widespread use of cash creates formal product and infrastructure opportunity. Local and bill payment transactions, along with encashment, are key needs. They are linked to the widespread use of cash. This creates an opportunity to move consumers across to the digital transaction space. Furthermore, the transactions taking place in cash create the need for infrastructure to facilitate access to cash. This is especially the case in Zimbabwe's multi-currency environment, where FSPs have become the entities in charge of ensuring that the quality of currency reticulating in the market is maintained. This creates a business case in the cash provision and digital transaction access point space.

Remittances as broader payments opportunity. Hard economic times have seen widespread internal and cross-border migration. This has resulted in high uptake of both domestic and international remittances in Zimbabwe. This creates an opportunity for product innovation to extend the reach of payments access points to reach out to the estimated 1.5 million adults remitting through informal channels, as well as to target Zimbabweans abroad. Formal remittances as point-of-contact could also be leveraged for cross-selling of other products, such as digital transactions, savings or insurance.

Mobile money a payments champion. The dominance of mobile money in the payments market – both in transactions and remittances – is due to innovation and a focus on the mass



market consumer base. These players can now further advance financial inclusion through product and infrastructure provision, as well as by being innovation market leaders.

Banks need to adjust business models to remain relevant. Banks have been highlighted as a secondary FSP in the payments market outside of international remittances and infrastructure provision. Pricing model adjustments, an expansion in access points and efforts to address perceptions of trust and attractiveness to the mass market's needs, are all important factors for banks to gain greater prominence.

Missing system components could provide greater NPS efficiency. Introducing EFT payments and an electronic clearing house would enhance the efficiency of the NPS and reduce the use of the RTGS, a systematically important payment system that should have limited usage to protect its operational efficiency. Moreover, the systems are in place for full interoperability between system players, a unique position for the region. However, without a mandated push this is unlikely to happen.



9.4. Market for insurance

The consumer needs analysis in Part B identified a strong need case for risk mitigation in Zimbabwe. Within the Zimbabwean context where consumer incomes are under immense pressure, people juggle various financial mechanisms in order to manage the risks that they encounter in their lives. This section unpacks the key drivers of the insurance market in Zimbabwe in order to understand the nature of demand and the supply response, as well as to highlight gaps and opportunities.

Key findings: market for insurance

- Consumers mitigate risks in various ways, mostly through savings and support from social networks, but also through credit and remittances. Insurance does not feature strongly for most. Outside of salaried employees, insurance uptake is minimal and largely consists of funeral cover.
- The insurance sector suffered severe setbacks during hyperinflation and, following the introduction of a multi-currency regime, continues to be under pressure. Moreover, in the decade preceding this study consumer realities have shifted considerably. Whereas, before, there was a plethora of insurance products that were utilised by a fairly broad middle class consumer base, the decline of the middle class and the increasing poverty has necessitated a reprioritisation of insurance products. The industry is traditionally heavily reliant on the corporate sector and employee benefits. However, both of these customer bases are declining.
- New business models are required and microinsurance and mobile insurance are of increasing importance. Funeral insurance, in particular, is a priority largely due to the fact that it survived hyperinflation and dollarisation without losing consumers' trust. The emergence of m-insurance warrants a revisiting of insurance regulation to safeguard consumer protection.

9.4.1. Need cases

This section outlines the need cases for insurance as identified through the quantitative and qualitative demand-side research. While these reflect need in the market, they should not necessarily be construed as feasible market opportunities in all cases, nor can they be seen as needs met exclusively by insurance products.

Not all risks insurable. The figure below depicts the main risks Zimbabwean adults experienced in the year preceding the FinScope (2014). The ranking gives an indication of consumer needs for risk mitigation. Of the top four risks experienced, three relate to increases in expenses that would not be insurable, namely rising cost of living, more dependents and – important in the Zimbabwean context – unforeseen education expenses.

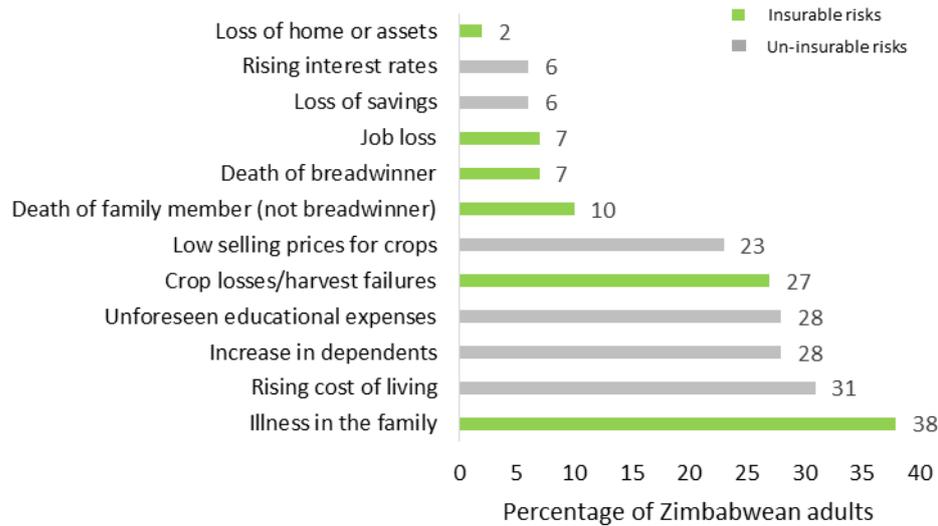


Figure 71: Predominant risk events experienced

Source: FinScope, 2014

Among the insurable risk events, the following need cases are most prominent:

- Meeting health financing needs.* The most cited threat (38%) to income was the cost arising from illness in the family. When faced with an illness or a medical expense in the 12 months preceding the FinScope 2014 survey, as many as 21% of adults claimed that they utilised their savings to cover medical expenses, while 23% have to rely on credit to cover these costs, 19% accessed medical insurance and 11% relied on family and friends (FinScope, 2014).
- To mitigate agriculture related risks.* 27% of adults fear loss of income due to crop failure and 23% due to low selling prices of crops. With the majority (51%) of the population involved in agriculture as a primary and as a secondary source of income, agriculture related risks have a large impact on household livelihoods. However, only 2% of the total adult population and 7% of the farmer target market segment have access to agricultural insurance (FinScope, 2014).
- To meet costs associated with the death of a family member.* As in many markets across the region, preparation for the eventuality of one’s death and that of loved ones is an issue of key importance. 10% of Zimbabwean adults indicated that the death of a family member was a risk event that caused financial hardship in the past year, and another 7% the death of a breadwinner. In total, 60% of adults consider death and funeral costs to be major expenses in one’s life (FinScope, 2014).

9.4.2. Uptake

Low total insurance uptake. Despite the recognition by 66% of adult Zimbabweans that insurance protects you when you have a problem, overall uptake is low, with 71% of the adult population excluded. Most of the 29% that are included are formally served. Formal insurance is especially prevalent in urban areas: whereas 90% of the urban insured access formal insurance, only 66% of the rural insured have access to formal insurance. The reliance on formal insurance grew from 19% to 25% in the three years between 2011 and 2014. This



was met by a decline in informal insurance uptake from 12% to 4%, with the result that overall exclusion increased slightly from 70% to 71% (FinScope, 2014).

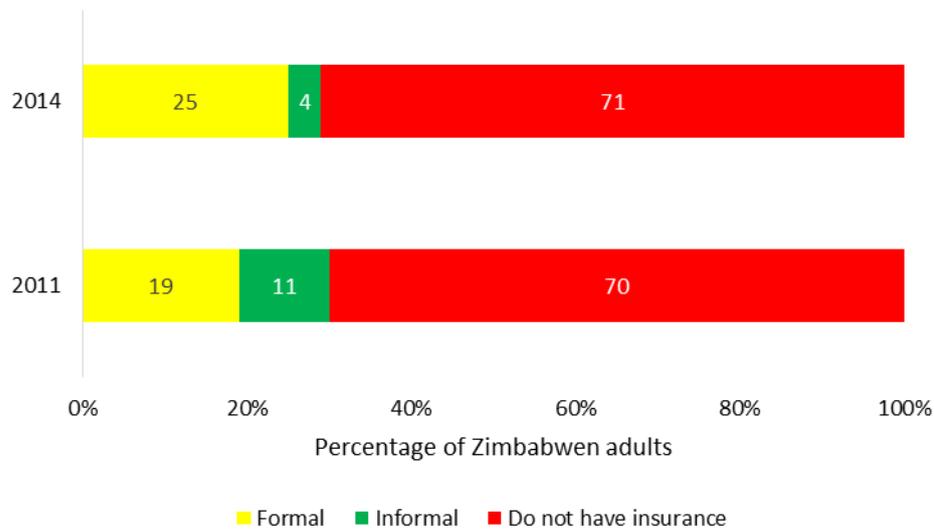


Figure 72: Comparative risk mitigation access strands (2011, 2014)

Source: FinScope 2011 and 2014

Funeral insurance usage dominates. Figure 73 below indicates insurance uptake by product class. Funeral insurance usage, as is common in the region, far outstrips any other insurance class. 55% (1 376 111) of all insured adults have funeral insurance, while medical aid accounts for 25% (628 878). The next most prominent insurance class is auto insurance, which is mandatory and comprises 10% (239 404) of insurance uptake (FinScope, 2014).

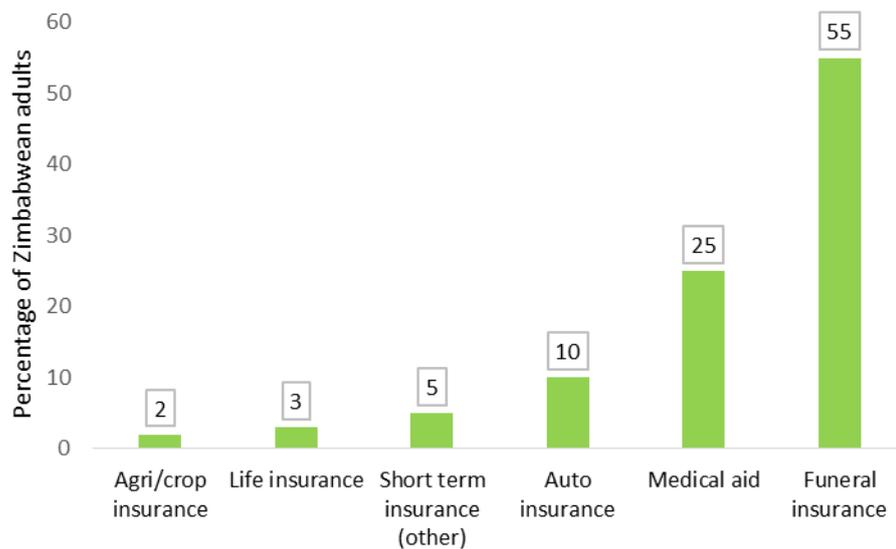


Figure 73: Uptake of various insurance classes as percentage of all those with insurance

Source: FinScope, 2014

Funeral insurance largely bought from assurers linked to funeral homes. 75% (1 037 972) of adults with funeral insurance indicated that they utilise funeral insurance provided by funeral homes and underwritten by affiliate funeral assurers. 39% (536 285) belong to burial



societies. Of these, 79% make a fixed contribution periodically, while the remainder contribute on a per funeral basis. Funeral insurance has continued to be a priority even under strained personal financial circumstances. Whereas there are more consumers who used to have credit and mortgage insurance than who currently have it, only the equivalent of 10% of those currently with funeral insurance used to have funeral insurance and no longer have it (FinScope, 2014).

Insurance penetration rates highest amongst the salaried. Income and employment status are large determinants of access to insurance. Given the recurring nature of premium collection, salaried workers are best positioned to access insurance. This is reflected in the uptake statistics: 69% of salaried workers have formal insurance and 1% informal insurance, but all other segments are predominantly excluded from insurance, with uptake ranging from 15% to 35% (FinScope, 2014).

Medical aid largely employer driven. Medical insurance, as second biggest uptake category, is largely driven by employer subscriptions. Salaried workers account for 51% (308 197) of the medically insured, followed by dependents (some with links to the salaried) at 17% (199 344) (FinScope, 2014).

Insurance not the main coping strategy. The low overall insurance uptake figures quoted above suggest that people use other ways to cope with the risk mitigation need cases highlighted in the previous sub-section. The diagram below indicates ways in which consumers manage risk events in their lives. 47% of adults access their savings to mitigate risks, 10% obtain loans and 2% utilise remittances. Only 10% indicate that they would look to insurance (FinScope, 2014):

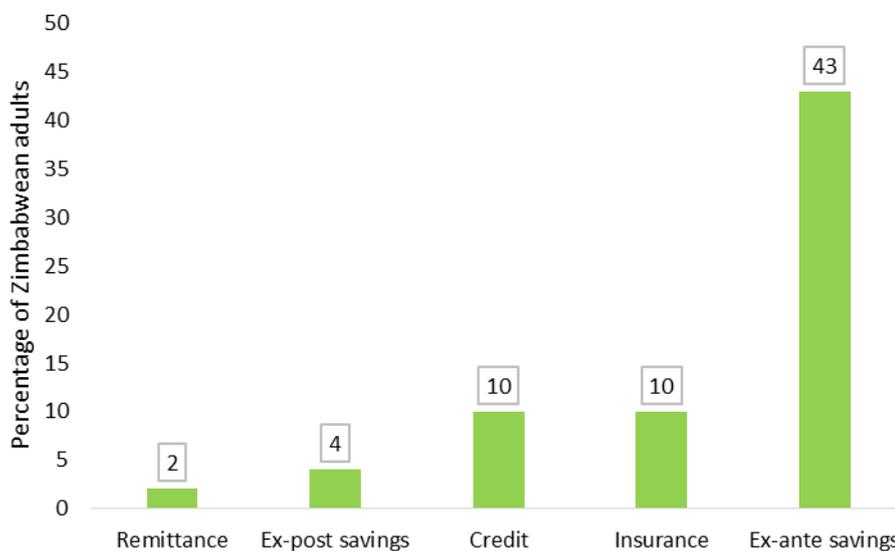


Figure 74: Use of financial services as risk coping strategy

Source: FinScope, 2014

High reliance on social capital for risk mitigation. A reliance on family and friends to manage risks is another key coping strategy that is not reflected in the insurance uptake statistics. This arises from the strong sense of “unhu” as described in section 2. The following qualitative research quotes illustrate:



“When my husband died, USD1,500 was needed to bury him, but his family were the ones who took that responsibility. Some of his close friends also contributed, as well as the community. Some brought mealie meal, sugar, salt, tomatoes and cabbage - and even cash.”

Private sector worker, Female, 31 years old

“My children helped me for the funeral because they borrowed money from their bosses in South Africa, people were talking and laughing that Gogo Hwanja’s husband passed away while they don’t have a funeral policy but we managed to do everything to bury him”

Remittance recipient, Female, 57 years old

Interviewer: How do you relate to each other in the community?

Respondent: We give each other assistance. Even if you are sick, they help you go to hospital.

Remittance recipient, Female, 59 years old

Interviewer: Can you think of something that went wrong?

Respondent: When I was in the bank, I would just go to the employer. Now, I would have to rely on family. Even when we had to bury my dad, his children and family contributed most of the requirements. Of course, we also made use of burial society funds.

Private sector worker, Male, 53 years old

9.4.3. Provision by financial service providers

Having considered the risk mitigation needs of adult Zimbabweans and current usage of products to meet these, we turn our focus to outlining the characteristics of the supply of insurance in order to evaluate the extent to which provision meets consumer demand. We first consider the main types of providers and who they serve, then look at the scope and features of the available product suite.

9.4.3.1. Market Overview

Section 8.2.3 provided an overview of the range of insurers, namely 11 life assurers, 9 funeral assurers, 25 non-life companies and 29 medical aid societies. While the first three categories are regulated and supervised by the Insurance and Pensions Commission, IPEC, the latter is effectively unregulated.

Funeral assurers weathered dollarisation to rise to prominence. The discussion in Section 8.2.3 also indicated that funeral insurance is the fastest growing insurance class. As the Uptake discussion above indicated, it is also the largest class by number of policyholders. As discussed, this is largely because funeral insurers were the most resilient and best positioned to transition to a post-dollarisation era without cancelling policies. They were able to do so because their pay-outs are in-kind, in the form of funeral services, and therefore did not lose value in the same way that for example life insurance or endowments did. This has built trust in the industry, which has further reinforced its position vis-à-vis other sub-sectors.



Life insurance sector dependent on diminishing corporate sector for viability. Employee benefits accounted for 69% of life business in September 2014 (IPEC, 2014). New business has been declining as the salaried employment base diminishes. In addition, individual life assurance is hampered by the lack of trust that resulted when long-term products became obsolete following the hyperinflationary period.

Motor insurance driving the non-life market. As indicated in the diagram below, the main drivers for the non-life industry are motor (42% of GWP), fire (21%) and personal accident (9%) (IPEC, 2014). Motor insurance is mandatory in Zimbabwe and therefore it is a logical safe haven for the non-life insurance industry in a declining macroeconomic climate.

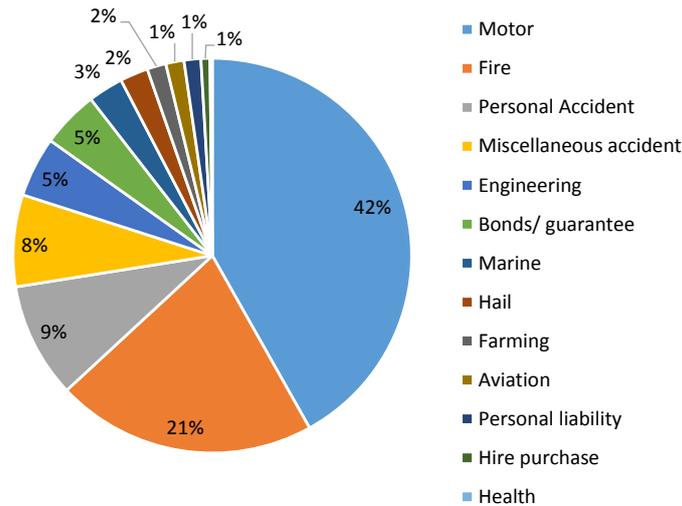


Figure 75: Drivers of non-life insurance business (% of GWP)

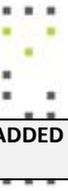
Source: IPEC, 2014; IPEC, 2014

9.4.3.2. Products

The overview here focuses on the top two insurance product classes by client numbers, namely funeral insurance and medical insurance.

Funeral insurance product design and pricing tailored to target market realities. Funeral insurance products have been adaptive to an increasingly informal economy with diminishing incomes in several ways: premiums start from as low as USD0.50 monthly for a sum assured of USD500, which is in line with people’s income realities. Importantly, as the table below indicates, many policies bundle tangible benefits into the product offering. Informal groups are able to approach a funeral insurer and open a group policy with terms preferential to individual policies. Branding is also often in the vernacular. Lastly, the emergence of mobile funeral insurance allows for microinsurance offerings delivered through low cost channels at prices that are more competitive than those that utilise traditional distribution models.

The table below highlights the broad range of premiums and benefits available to consumers:



Cover level	FUNERAL PREMIUM (USD) FOR VARIOUS COVER LEVELS					DISTRIBUTION	TANGIBLE BENEFITS/ VALUE ADDED SERVICES
	250	500	1 000	2 000	5 000		
ECOSURE (Underwriter: Ecolife)		0.50	1	2	5	Mobile phone only	N/A
TELECARE (Underwriter: Zimnat Lion)	0.45+					Mobile phone only	25 Funeral as a 'free' benefit as part of travel and hospital cashback bundle.
CABS		3	4	7	16	Agent, Branch	N/A
CBZ		1.10	2.20	4.40	11		Lump sum payment at a Funeral, plus monthly groceries for a period of 12 months after the death of the Principal Member. Annual total for groceries: US \$500 to US\$ 5000
OLD MUTUAL		3	4	7	16	Branch, Agent	N/A
DOVES FUNERAL ASSURANCE COMPANY			7.50			Branch, Agent	<ul style="list-style-type: none"> — Immediate cover for the family — Transport to anywhere in Zimbabwe — All services - removal, assistance with documentation, use of mortuary, wash and dress embalming, use of chapel, grave site tent, lowering device — Grocery Allowance — Transport (funeral) for mourners and dependents. — Hearse — Coffin
NYARADZO FUNERAL ASSURANCE COMPANY	No cash payout, in-kind only. Premium of \$2.90					Branch, Agent	Entry level coffin, 200 grocery allowance, (transport optional – 6.99)

Table 23: Funeral insurance premiums and associated benefits

Source: Authors' own, various insurance providers.

Entry of mobile insurance. A notable recent trend in the insurance market is the entry of accessible insurance offerings provided via mobile network operators. The two current providers, Telecare and EcoSure, provide insurance with premiums beginning at USD0.45 per month. Premiums are deducted from the mobile wallets of the insurers who register or opt-in for the services. Hallmarks of m-insurance products are affordability, eligibility that is built-in as consumers are already registered through the usage of the SIM card, and convenient registration, distribution and claims that all take place on the handset. The table below provides an overview of m-insurance features:

Product	Provider/ MNO	Underwriter	Premium	Benefits	Distribution
EcoSure (Funeral insurance)	Econet (Launched: 12/2014)	Ecolife	\$0.50 - \$5.00	Funeral cover ranging from \$500 to \$5,000	Mobile
Telecare (Funeral, Travel insurance,	Telecel (Launched: September 2014)	Zimnat Lion	\$0.45 - \$1.30	\$250 funeral cover, \$20/day hospital cash back, local	Mobile



hospital cash back bundle)				travel cover: \$5,000; international travel cover (premium plan only) \$50,000.	
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Figure 76: m-insurance summary features

Source: Authors’ own, provider websites

Dearth of medical insurance products in the informal sector. The fact that medical insurance is largely employer-driven means that it is not targeted at the low-income market. The entry level range for medical insurance premiums is \$10-20 per month, about 7.5% - 15% of the average monthly income. The table below gives indicative premiums (in US dollars) for the lowest to highest end of the health insurance market:

Company	Basic Package	Core package	Corporate	Executive	International
STEWARD HEALTH	8	45	78	98	290
CIMAS	10	14	28	62	98
PSMAS	27	45	55	72	90
First Mutual	12	34	74	174	340
Cell Med	15	27	39	59	321
Generation	17	38	57	68	115

Table 24: Monthly medical insurance premiums in USD

Source: Authors’ own, various insurance providers.

9.4.4. Barriers to access

Zimbabwean adults face a number of barriers that prevent them from taking up insurance. Accessibility is a function of factors precluding consumers from taking up insurance, while usage barriers mean that even when an insurance product is within reach, there may be consumer related issues that deter uptake. The table below summarises the most significant reported barriers to insurance uptake in Zimbabwe as identified through the qualitative and quantitative demand-side research. Main barriers identified are indicated in red, minor barriers in orange. Green factors are potential barriers that were not found to be significant in the insurance market in Zimbabwe.

Access Barriers	
Affordability	Most cited reason for being uninsured. Pricing not reflective of current economic circumstances, with exception of funeral insurance.
Appropriateness	Products not appropriately designed for new economic realities.
Proximity	Distribution challenges: rural less well served than the urban population.
Eligibility	Eligibility not reported to be a barrier.
Usage barriers	
Familiarity	Large portion of population unfamiliar with insurance classes beyond funeral
Trust	High levels of distrust in formal institutional provision following hyperinflation and dollarization, excepting MNOs.



Table 25: summary of insurance access and usage barriers

Source: Authors' own, based on FinScope, 2014, qualitative demand-side research and supply-side scan

Design and pricing not tailored to low-income market. Low disposable incomes make insurance unaffordable. For all insurance classes, consumers listed affordability as the most important reason why they are not insured. 42% said they could not afford funeral insurance, 39% indicated an inability to afford motor insurance (FinScope, 2014). Insurance products, with their requirement for regular premiums and emphasis on employer-based distribution, are by and large ill-suited for the new, more fractured and informal economy characterising the post-dollarisation world, in which incomes are diminishing and few people are formally employed. A notable exception is funeral insurance with premiums as low as USD0.50 monthly.

Familiarity with insurance products limited beyond funeral. As far as general awareness of insurance is concerned, FinScope (2014) shows that 66% of adults agree that having insurance protects you when you are in trouble. However, this perception seems to be limited to a few insurance types. With the exception of funeral insurance, consumers expressed unfamiliarity with most insurance products. 81% of consumers had never heard of agricultural insurance; credit or mortgage insurance, travel insurance, all risks insurance, household insurance and money insurance all elicited responses of unfamiliarity above 90% (FinScope, 2014).

Low trust impacts insurance uptake. Trust emerged as a critical factor in the uptake of insurance, once again with the exception of funeral insurance. This is largely due to the hyperinflationary period, which made insurers unable to honour claims when the Zimbabwe dollar lost immense value in short timeframes. Trust was further damaged at the conversion to US dollars when Zimbabwe dollar denominated policies were written off. As discussed in the provider overview, funeral insurers however continued to provide tangible services and hence remain trusted.

9.4.5. Regulatory issues to consider

Emergent technologies elicit revisiting of regulation. M-insurance is of increasing importance to the insurance sector. The current insurance regulations do not make particular provision for the oversight of digital microinsurance and the various partners involved. Previous experience, where an m-insurance product, Ecolife, automatically covered a substantive proportion of the adult population, only to be discontinued overnight in 2011, has highlighted the pitfalls and challenges associated with regulating m-insurance⁹⁸. The two current m-insurance products have been launched in an as-yet unregulated environment.

Health insurance unregulated. Medical aid schemes and funds are supervised by the Ministry of Health and Child Welfare under a registration-only requirement, but are not currently regulated. The absence of regulatory oversight leaves consumers open to consumer protection challenges, with no recourse.

⁹⁸ For an in depth overview of the experience and issues, see: Leach & Ncube, 2014. Regulating m-insurance in Zimbabwe: managing risk while facilitating innovation. Available at: www.finmark.org.za. After Econet ceased Ecolife operations in 2011, it obtained its own license and launched EcoSure, its new funeral insurance product underwritten by Ecolife in December 2104.



9.4.6. Product market findings

The analysis of the demand for insurance in Zimbabwe and the supply response highlights the following cross-cutting findings:

Mismatch between needs and provision. The top two need cases to address insurable risk events for Zimbabwean adults are health and agriculture. However, health insurance coverage is predominantly accessible as an employment benefit and in 2014 only 25% of Zimbabwean adults had access to medical cover. There is also a very low level of access to agricultural insurance (2%) for a predominately agrarian economy that provides primary and secondary incomes for more than half of the adult population (FinScope, 2014). This speaks to structural challenges of affordability and distribution that will be hard to overcome in light of Zimbabwe's economic realities.

Small and declining insurance sector needs reinvention to overcome trust deficit. The insurance sector in Zimbabwe is under immense pressure owing to declining incomes and decreasing formal employment. Insurers that rely on employee group-oriented business models are particularly adversely affected and the limited and diminishing risk pool poses a threat to the insurance sector. The status quo points to limited opportunities within the traditional insurance sector. The one exception is funeral insurance and other products that are very low cost in nature. This makes microinsurance – as insurance targeted to the low-income market – even more relevant in Zimbabwe than in many other jurisdictions. The dominance of the funeral insurance subsector highlights the importance of tangibility and low premiums that match consumer realities to the growth of the insurance sector more broadly. Another microinsurance channel that has gained prominence is m-insurance. However, experience has shown that this entails consumer protection risks, which creates a strong imperative for a regulatory response.



Part D. Findings and recommendations

10. Synthesis of findings

10.1. Introduction

The purpose of MAP Zimbabwe is to assess the opportunities and strategic priorities for increasing financial inclusion in Zimbabwe. This chapter identifies these opportunities and priorities, based on an understanding of the underlying drivers of financial inclusion, the expressed financial services needs of the population, and the strengths and weaknesses of the key financial sector players. It also seeks to identify the main policy, regulatory and supervisory choices required to realise these opportunities.

10.2. Drivers of financial inclusion

The past 15 years in Zimbabwe have been marked by economic and political turmoil. Yet, a very resilient population has responded with determination to adjust their lives to changing and often difficult circumstances. The manner in which their usage of financial services changed, and will continue to change, will be determined by at least the following underlying drivers:

10.2.1. Declining incomes and formal employment

The average income of Zimbabwean adults has declined since 1990, and markedly so between 2011 and 2014. At the same time formal employment has shrunk from 1.2 million in 1998 to just more than 700 000 in 2014. These trends are likely to continue under prevailing macroeconomic conditions (see section 2.2.3).

Declining incomes depress the demand for formal and informal financial services. People have less disposable income to save, credit becomes unaffordable and their ability to pay bank charges decreases.

The impact of reduced formal employment is particularly severe for formal financial institutions. One of the major reasons for opening bank accounts is to receive salary payments. As people lose their jobs, they do not close these accounts. These accounts simply become dormant, a phenomenon which impacted a quarter of bank accounts held by Zimbabwean adults in 2014. Similarly, formal employment is the ticket to most pension and many life insurance products, especially group insurance, in Zimbabwe. Reduced formal employment means fewer automatic clients for these products.

The impact of diminishing formal employment on the credit market is perhaps most severe, as payroll lending is now the primary form of personal lending. Without a payslip, and with very shallow asset markets to trade collateral, it is very difficult for an individual to access formal credit.

10.2.2. Restrictive macroeconomic conditions

Following the introduction of the multi-currency regime in 2009, the US dollar became the *de facto* currency for government and commerce in Zimbabwe. The substantial appreciation



since 2011 of the dollar vis-à-vis the currencies of Zimbabwe's major trading partners, notably the South African Rand, has given Zimbabwe a serious bout of Dutch disease without the revenue from mineral exports (see Box 1).

The strong United States dollar, over which the RBZ by definition has no influence, has led to a serious decline in Zimbabwe's manufacturing sector as its exports become increasingly uncompetitive. This has undermined the financial strength of its corporate sector, leading to insolvencies, lay-offs and a NPL ratio for commercial banks that peaked 16%⁹⁹ by the end of 2014 (RBZ, 2015). The agricultural sector has also been negatively impacted. It is often cheaper to import food than to produce it locally.

These effects inhibit the extension of credit to the productive sector, be it corporate or SMMEs. On the other hand, it creates opportunities for cross-border traders who capitalise on the strong dollar to buy cheaply in neighbouring countries with weak currencies.

If this macroeconomic environment persists, and the trickle of capital inflows does not grow, it will affect the stability of more banks and undermine any general efforts towards financial inclusion.

10.2.3. Externalisation of third of adult population

The MAP analysis shows that the equivalent of almost one third of Zimbabwean adults (3.3 million) now reside and work outside the country, the bulk of them in South Africa (see section 2.1). This massive continuing export of labour is driven by the general economic climate. It is facilitated by high levels of tertiary education attainment rates, which makes Zimbabweans sought after professionals abroad. However, a substantial portion of the emigrant population remains undocumented or do not have permission to work in their host countries.

A large portion of the internal population is reliant on financial flows from the diaspora to stay alive. Access to efficient, low cost remittances is therefore a high priority for many Zimbabwean adults on both the sending and receiving side. Whereas most remittances flowed through the informal sector just 5 years ago, a large proportion of remittances flowing into Zimbabwe are now channelled through the formal sector following enabling regulatory changes, notably the introduction of the Authorised Dealers with Limited Authority (ADLA) framework in April 2015.

At the same time, Zimbabweans abroad, who often have larger disposable incomes than the domestic population, have become an increasingly attractive market for Zimbabwean financial institutions. As banks and insurers are squeezed in the domestic market, this trend is likely to grow.

10.2.4. Informalisation of the economy

The decline in formal employment is driving Zimbabwean adults to make a living in the informal economy. More than 90% of the economically active population now makes a living outside the bounds of formal employment or formally registered SMEs (FinScope, 2014). And even for those that are formally employed, the predictable payday is something of the

⁹⁹ After reaching its peak at 20.4% in September 2014, the NPL ratio declined gradually to 10.9% in December 2018 (RBZ Monetary Policy Statement, January 2016).



past. Many salary earners go unpaid for months and must in the meantime find alternative livelihoods strategies. It is therefore no surprise that FinScope found 51% of adults reporting farming as a secondary or primary source of income (FinScope, 2014). More than 99% of farmers are subsistence farmers (Scoones, 2011). At the same time 496,000 adults (57% of microentrepreneurs) eke out a living as informal traders (FinScope, 2014). Cross-border traders are now one of the most significant industry groups in the country.

On the enterprise front, Zimbabwe does not really have a true SMME market. Less than 3% of enterprises have more than six employees and 72% do not employ anyone other than the owner. The vast majority of micro enterprises are not formally registered and will not register. It is therefore not possible to provide financial services to them as enterprises with a legal personality (FinScope, 2012).

The implications for the delivery of financial services are powerful:

Payments will remain the largest demand for formal financial services. Virtually all Zimbabwean adults have formal documentation and can thus comply with the reduced KYC requirements for low risk customers set out in KYC Circulars 1 and 2 of 2011. This gives them access to EcoCash and basic transaction accounts and thus payments functionality. However, they do not have a payslip and therefore cannot access credit. They mostly also cannot afford the bank charges required to keep money in a bank as savings. However, given the levels of migration of Zimbabweans and mutual support over distance, they will continue to need payments. Access and need will combine to keep payments the primary formal financial services play while current conditions persist.

Informal and community-based services the default option. Due to affordability reasons, family and friends and informal groups will continue to be the largest providers of credit and savings services, with the exception of MMOs that are able to mimic the price and convenience of these services.

Traditional bank credit models unable to deal with informality. The dearth of retail bank credit in Zimbabwe testifies to the difficulty that banks have in extending credit to the population in the absence of payslips or alternative collateral. Banks will have to find new credit methodologies to grow their credit portfolios in this climate. One bank has started to extend credit linked to savings and others are using group-based methodologies (Stakeholder interview, 2015). A few banks have also registered MFIs to extend credit and move beyond the interest rate ceiling applicable to banks. They will have to move fast to keep up with the savings and transaction-based credit model used by EcoCash. In an informal economy, credit will increasingly be a value-added product to a payments platform.

Personal loans the main channel for productive credit. Due to the informal nature of the bulk of enterprises and the shallow markets for collateral, it will be tough for formal institutions to provide productive credit. Most productive credit will be channelled as personal credit. Financial institutions will therefore require a cross-cutting approach to productive credit and should be cautious to adopt traditional SME or agricultural credit approaches. To the extent that credit is extended to the agricultural sector, it will be via value chain players such as fertiliser, seed and other input providers.



10.2.5. Experience of hyperinflation and its aftermath

The Zimbabwean experience of hyperinflation between 1996 and 2009 had a profound influence on the psyche of the nation and how they engage with financial services (see section 2.2.3.1). Hyperinflation has two powerful consequences for financial services: on the one hand it destroys all monetary assets or claims sounding in money. If you have a bank deposit worth USD1000 on day 1, its real value can be less than USD10 on day 7. In response, customers will avoid all monetary assets and claims. The same goes for life insurance policies – if the benefit values are fixed, these are destroyed in no time. On the other hand, hyperinflation expunges debts overnight if interest rates do not keep up with inflation. Hyperinflation therefore tends to benefit those with real physical assets such as land and buildings. It is thus no surprise that Zimbabwean adults are loathe to keep their savings in banks and prefer to keep it in hard cash at home. It should also be no surprise that, steeped as they were in inflationary expectations, banks extended far more credit immediately after the introduction of the multi-currency regime than was healthy, leading amongst others to high levels of NPLs.

The way in which the multi-currency regime was introduced also had some negative consequences. Because the government did not set a standard for conversion of Zimbabwean dollar-denominated rights and obligations, customers lost their deposit values and no standard conversion of insurance benefits into US Dollars occurred. This further undermined confidence in monetary assets, insurance and retirement funds.

These influences persist, leading to a continuing resistance to saving in banks and a preference for savings in hard currency. Life insurers are struggling to grow their book due to continuing distrust. The only growth area is funeral insurance because it provides services in kind. On the other hand, hyperinflation did not diminish the strong belief Zimbabweans have in education, especially higher education. Payment for school fees is often the only contact that persons who operate in the informal sector have with the formal financial sector. Savings and credit for education will remain strong priorities for the entire population. The experience with hyperinflation also explains the strong need for incremental housing – finding a piece of land and gradually building a house. Most of this is financed in cash.

10.2.6. Structural weakness of banking sector

The financial sector regulator tends to turn, in the first instance, to the banking sector as the main driver of expanded financial inclusion in the country. This has happened in Zimbabwe, but with very limited results. In fact, the banking sector is subject to structural weaknesses that will continue to undermine its capacity as a major contributor to growing financial inclusion in the immediate future.

The reasons for this are set out above in the provider section. A number of banks remain stressed and not able to comply with minimum capital and liquidity requirements. Although having declined by June 2015, the NPL rate of 16% at the end of 2014 does not speak of a healthy sector (RBZ, 2014). And the position is made more difficult by a struggling corporate sector. What is therefore witnessed in the market is a flight to quality to the handful of top banks that can be trusted. At the same time the RBZ is severely constrained in its ability to play its role as lender of last resort.



More important for financial inclusion, banking payments and distribution infrastructure has fallen far behind the rapidly growing MMO infrastructure. Moreover, banks are complaining that MNOs are providing unequal access, service quality and pricing terms to them in relation to mobile networks and protocols that support e-money. Given these circumstances, one would have expected banks to respond by sharing infrastructure and competing on service, but they have not. The result is that they continue to fall further behind in the payments race. This despite the fact that a few private commercial banks are currently the only providers of hard currency in the country. To date they have not found distribution and pricing models that enable them to capitalise on this unique position (Stakeholder interviews, 2015).

The structural weaknesses of the banking sector have some serious implications for financial inclusion in Zimbabwe:

Banks will struggle to regain their foothold in the provision of payments. Unless banks start to share infrastructure, promote maximum interoperability between their systems and collectively improve their payment systems, they will struggle to significantly increase their revenue and thus to expand their distribution infrastructure to match the payments footprint of the MMOs. If they fail to catch up in the payments race, they will struggle to regain savings and credit customers. And as such their ability to play their fundamental intermediation role in the economy will be constrained.

The shortage of cash undermines financial inclusion. Since the majority of adults save at home or with informal groups in hard currency, the cash shortage has a dampening effect on the largest set of financial transactions in the country.

10.2.7. Rapid growth of mobile money network and its adoption

The past four years have seen the rapid and concerted expansion of the reach of mobile money platforms in Zimbabwe. The number of mobile money subscribers grew from zero in 2011 to 3.3 million or almost 45% of the adult population by June 2015 (FinScope, 2014). A number of factors have driven the rapid adoption of mobile digital finance. Foremost amongst these, has been the massive need for low cost and convenient transfer of value between people within the country. Since 2015, EcoCash has also been registered as a tier one ADLA with the capacity to do cross-border remittances or partner with foreign providers (RBZ, 2015). The rapid uptake of the service is linked to a transaction-based pricing model that clients find far more acceptable than the traditional banking retainer-based pricing model.

The rapid adoption is also facilitated by the dominant position of EcoCash which produces network effects. EcoCash has since set about to create a convergence model by clustering savings, credit and insurance products around its core payments platform and delivering these over its mobile platform. To comply with regulatory requirements, these products are delivered at the back end by a licensed bank and a licensed life insurer. This model has enabled it to secure more credit customers than the entire banking sector within three years (up to 2014). Linked to its pricing power made possible by its mobile distribution channel and network of conveniently accessible agents, the MMO model has gained a commanding position in retail financial services.



In an economy that is rapidly informalising, the business model of the MMOs seems set to deliver most formal financial services in the next few years, unless the banking sector can cooperate to respond.

10.3. Needs

MAP has shown clearly that people do not make decisions about their use of financial services with a product in mind, that is: “I need a savings product, or credit product, etc”. Rather, they try to meet a particular need through a financial service and then decide which service to use based on what is available. Section 6) set out to quantify these needs based on FinScope research.

It is no surprise that, in the current constrained economic environment, the bulk of the needs for formal financial services centre on payments (see Figure 77 below). These include all forms of local purchases of goods and services, largely done in cash, as well as bill payments. They also include normal payments for utility services, as well as purchases of prepaid airtime. The other needs for payments relate to transfer of value – both domestic and cross-border. And of course each transfer of electronic value is matched with an encashment need since Zimbabwe remains a cash economy.

Besides payments, it is the need to provide for uncertain events and to smooth consumption that dominate. The latter need is really about liquidity management in a highly uncertain environment. Given that 50% of adults receive some form of income from farming (FinScope, 2014), the need to use financial services to provide for agricultural inputs is surprisingly low. This is probably a reflection of the overwhelming subsistence nature of agriculture.

The importance given to education spending and asset accumulation reflects the priority given by Zimbabwean adults to higher education and their preference for real assets following the experience with hyperinflation.

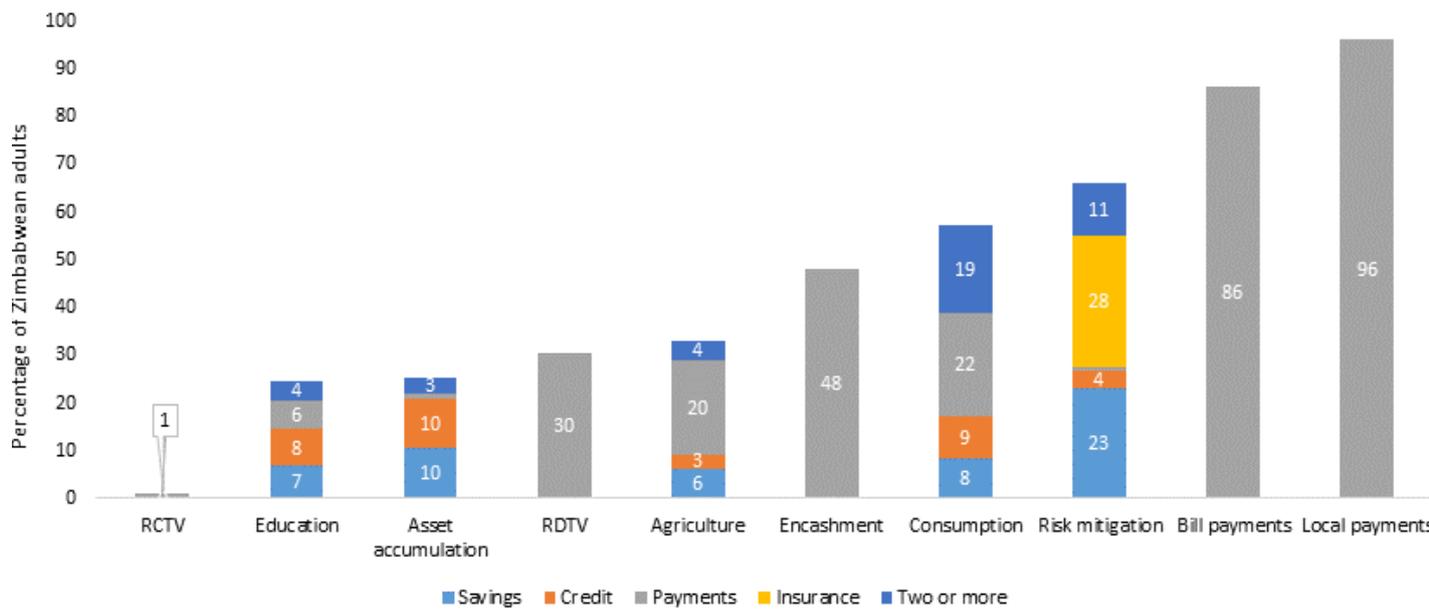


Figure 77: Need cases in Zimbabwe

Source: FinScope (2014)

10.4. Opportunities to increase financial inclusion

10.4.1. Increase the availability of cash

Cash is the oxygen of financial inclusion, including digital financial inclusion. Adults prefer to do the bulk of their transactions in cash, they prefer to save in cash, they make their informal loan payments in cash and they enter into all digital transactions through cash. A shortage of cash is therefore a serious barrier to financial inclusion. And following dollarization, Zimbabwe has been experiencing a shortage of cash.

An opportunity lies in increasing the availability of cash. Currently this must be done by private commercial banks since they are the only banks with relationships that can facilitate the importation of cash. The more important issue is that banks must be allowed to price for cash. By definition the price for cash transactions should be more than 3% of face value since that is the minimum cost of importing US dollars.

10.4.2. Utilising and expanding banking infrastructure

Despite falling behind in their infrastructure footprint relative to MMOs, banks remain the financial service providers with the largest capacity and skills in the country. Not being able to employ banks as a core agent of financial inclusion therefore would be self-defeating. To regain a position of confidence and the ability to meet the financial services needs of Zimbabwean customers, should therefore be a top priority for the banking sector and its regulators. And the opportunity is not out of reach.

Firstly, banks should use what they have optimally, competing on service rather than infrastructure. If they make their existing infrastructure interoperable, much of the duplication would disappear overnight and each bank would extend its reach much beyond



its current capacity. Secondly, this could be combined with a much more focused expansion of bank agent networks. Thirdly, as banks adjust their ATM and encashment fees to more realistic levels, this will also start to motivate the expansion of their ATM network. All of these factors can contribute to them regaining critical mass in the payments sphere – where most of the revenue in the current environment is to be found. And from there they will have a sound base and network to expand their savings and credit business.

10.4.3. Payments and savings-based personal credit

Traditional collateral-based credit is difficult to pursue under current market conditions. Markets for collateral are shallow and creditors struggle to recover their security. Most of the new formal sector credit in the market which is not payroll credit is therefore based on creating alternative collateral in the form of minimum savings, or using data on transaction flows to measure the creditworthiness of customers. The MMOs, with large alternative data sets at their disposal, are particularly adept at developing this new credit market.

To prevent over-indebtedness, this type of credit extension can be linked to the existence of a sound credit bureau, something which is currently being developed in Zimbabwe. The difficulty, however, is that most banks as of now do not have access to a database of transactions that permits them to score credit risk.

For the foreseeable future, productive credit will be channelled through personal loans.

10.4.4. Services for the diaspora market

As indicated earlier in the report, the inflow of remittances, at 13% of GDP, accounts for a significant portion of funding inflows into Zimbabwe (RBZ, 2014). Until the political economy changes substantially, this is likely to remain the case. Providing the most efficient services to foreign remittance senders should be a priority for policy-makers and financial service providers alike.

However, it is not only the opportunity to facilitate remittance flows, but also the opportunity to sell services to remittance senders and receives alike. And beyond remittances there is the opportunity to sell financial services directly to the diaspora.

The state has a particularly important role to play. Here the opportunity is to regularise the residence of Zimbabweans currently residing without work permits or travel documents in host countries. Once they can legally make use of financial services in their host country, many new opportunities open up.

10.4.5. Niche products

In the current environment, and given the articulated needs for financial services by Zimbabwean adults, a number of niche market opportunities exist:

- *Credit for incremental housing.* Zimbabwe currently has a very small, anaemic and rather short term mortgage market. Yet, citizens find ways to obtain title to land and build homes incrementally. Creating savings and credit products to facilitate this strong drive is an opportunity that can mature into a full blown mortgage market in due course.



- *Services for cross-border traders.* This market is huge and growing. Cross-border traders are vulnerable to crime and would use cashless payment solutions that permit them to buy across the border without having to carry cash or lose forex commission. They are also a ready market for short term credit to buy stock.
- *Commitment savings for education.* Zimbabweans are deeply committed to higher education. There must therefore be a market that assists them to save for this highly prized expenditure.
- *Value chain credit for smallholder farmers.* As indicated the market for productive credit for agriculture is small and hamstrung by harsh macroeconomic conditions. To the extent that it is feasible, it will happen through larger players in the value chain such as seed and other input providers.

10.5. Policy priorities for government

Given the restrictive economic conditions, what can the government of Zimbabwe do to extend financial inclusion to the bulk of its population?

1. *Assist the banking sector to regain momentum in financial inclusion.* As indicated, a number of opportunities lie ahead for the authorities to assist the banking sector to regain momentum on financial inclusion and provide a viable and attractive alternative to the growing MMO platform. If for no other reason, creating such an alternative is necessary to contain the system-wide risk of having only one dominant retail financial services provider. Specific actions can include a sound banking agent framework that provides a level playing field with mobile money agents. If the sector does not move to interoperability of infrastructure voluntarily, the RBZ can mandate it. Assisting the banking sector in its engagement with PORTRZ and the competition authorities will also assist. It will also be critical for the regulators to refrain from passing regulations or issuing directives that would seek to create low cost bank accounts or impose price controls on bank fees. The authorities can also assist banks to rethink their pricing models – away from retainer type fees to transaction-based fees.
2. *Ensure proportionate regulation and supervision of the evolving mobile money market.* Mobile money has grown rapidly and is in Zimbabwe to stay. An important contributing factor has been the regulatory approach of the RBZ – using a type of contractual supervision before passing any permanent regulatory framework. However, the industry is now so big and important that its sheer size raises consumer protection concerns. It is therefore timely to pass a regulatory framework for mobile money payments, with a strong emphasis on consumer protection. This framework should also seek to create a level playing field between MMOs and other financial sector players. It will moreover be very difficult to introduce and enforce such a framework without the coordinated effort of all the regulators involved – RBZ, PORTRAZ, the Tariff and Competition Commission and IPEC.
3. *Cooperative effort between policy-makers, financial institutions and regional authorities to maximise inflows from the diaspora.* The importance of remittances to the people and government of Zimbabwe has been emphasized throughout the report. Maximising formal remittance flows must perforce be a priority for the Zimbabwean government. Achieving this will require regulatory coordination and



cooperation with neighbouring countries and regional authorities like the Committee of Central Bank Governors of SADC. Much has already been achieved on the regularisation of money transfer operators, but much remains to be done especially to document migrants and to encourage their continued engagement with their country of origin.



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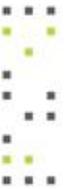
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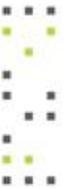
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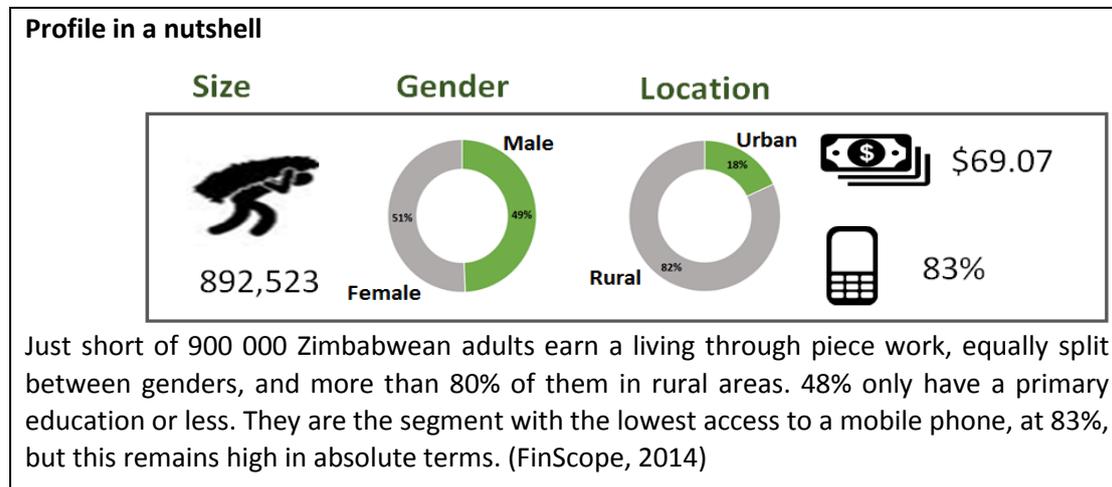
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Appendix A: SEGMENTING THE TARGET MARKET: Target market segment profiles

This appendix outlines the unique profile for each target market segment.

Survivalist workers



What are their realities?

Susan is a 32 year old woman from Kuwadzana. She does piece work as a bar attendant and earns about USD175 per month. Her husband also does piece work as a plumber and to supplement her income, she sells airtime and profits USD20 per month. Susan’s main concern is her daughter’s school fees and she saves money on a monthly basis to ensure that she is bale to cover this expense. (Qualitative study, 2015)

Poorest target market living on low and infrequent income. As the lowest average income earners (at only USD69 per month), survivalist workers face extreme challenges in meeting their daily needs. Of all the target markets, FinScope (2014) indicates that survivalist workers most frequently have to skip a meal as a result of having no income. Only 22% of survivalist workers indicated that they have never had to skip a meal during the past twelve months.

Worried about putting bread on the table. Where their income will come from and how they will meet their expenses is a big source of worry, as the following quote indicates:

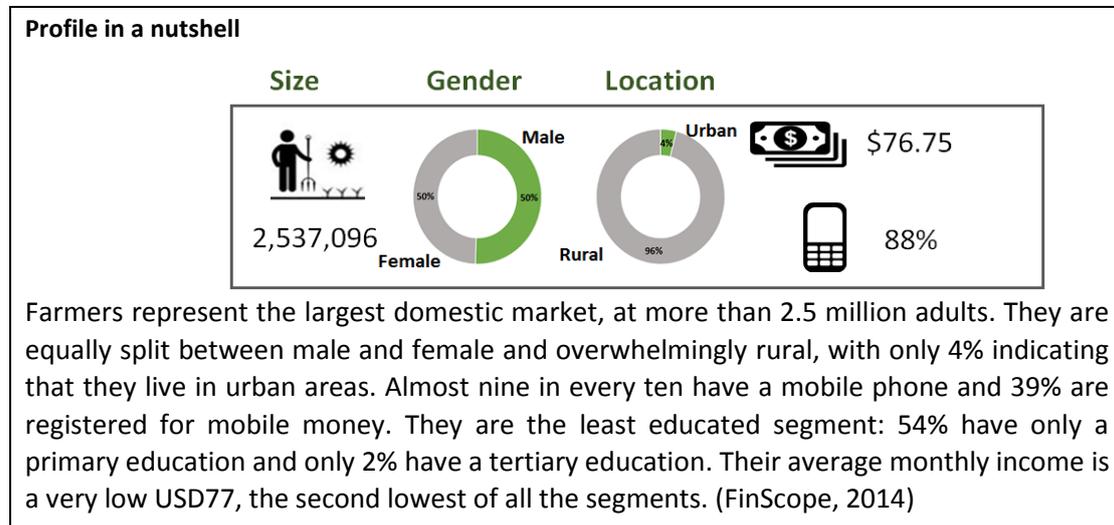
“I only survive by a small business of Jaga. I help carry people’s luggage mainly from the supermarket. Sometimes, I don’t manage to put food on the table. Where I was staying, they chased me because of not paying rent. Now I have moved in with a relative who will keep me for 2 months during which time I must try to raise money for rent if I can.”

Unemployed piece worker, Female, 55 years old



Farmers

The farmers segment represents all those that derive the largest part of their income directly or indirectly from nature, via crops, fishing, livestock or selling materials that they collect themselves.



What are their realities?

Mr Phiri is a 75 year old subsistence farmer and resides in Goromonzi, along with his wife, son, son’s wife and their two children. As a maize farmer, Mr Phiri earns USD60 per month. He also grows vegetables, onions and tomatoes and earns a profit of USD150 per month from this. His wife helps him with the farming, while his son sells vegetables. Mr Phiri is also a part-time fence constructor – making and mending fences for the people in his village. While he does not sell livestock for a living or make use of formal savings mechanisms, he owns chickens, goats and cows and regards those as his savings. When his livestock became diseased, his daughter sent him money in order to purchase the necessary vaccine for the animals. (Qualitative study, 2015)

Survivalist outlook. The vast majority of farmers, estimated at 99.96%, are smallholders generating a limited cash surplus. 87% (2 million) of Farmers earn less than USD100 per annum. 10% (235 261) earn between USD100 and USD300 and a mere 3% (72 332) earn more than USD300. Monetary income alone, however, is not an adequate measure of livelihoods generated through agriculture, since 59% of farmers are farming for consumption purposes. Given that they struggle to make ends meet, most farmers do not make long term farming decisions and prefer to limit their farming activities to crops and livestock that will yield the highest income in the shortest period of time.

“I grow maize, beans, vegetables, chickens, pigs, but we have reduced the pigs because chickens bring more money faster...”

Farmer, Female, 49 years old

Limited aggregation. 59% of the farmer segment can be classified as survivalist in that they do not sell any of their produce to either the public or an aggregator (such as a central buyer, cooperative or agribusiness). Only 18% sell to an aggregator. Of these, 29% sell tobacco and a



further 24% cotton. A further 11% of farmers can be classified as “mixed sellers”, selling some produce to aggregators and some directly to the public. Of them, 38% sell maize and 20% sell tobacco. Another 11% sell some produce directly to the public, but none to aggregators. (FinScope, 2014)

Limited access to external funding. Survivalist farmers are the least likely to obtain additional inputs above and beyond what they have at their disposal. Government subsidies play a significant role, with subsistence farmers being the most likely to receive government support (stakeholder interviews, 2015). Access to commercial/bank credit is negligent across the board (under 3% for all categories) (FinScope, 2014).

An important income supplement for other segments. The target market analysis in MAP is based on main source of income (see section 4). Many respondents however report that they have more than one source of income. Apart from the 2.5 million individuals in the farmer segment, a further 1 million adults indicated that they supplement their incomes through agricultural activities. Thus a total of 51% of all adults report agriculture as primary or secondary source of income. As the diagram below indicates, those supplementing their livelihoods through agriculture are spread across even the more affluent segments:

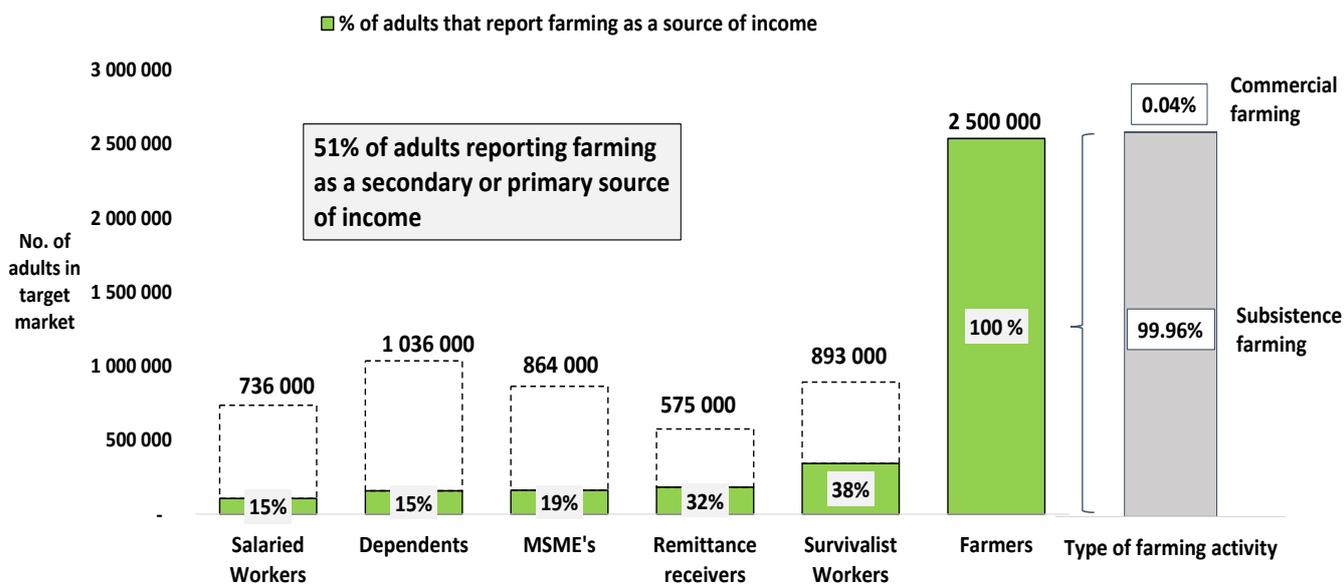


Figure 78: Percentage of each segment involved in agriculture

Source: FinScope, 2014

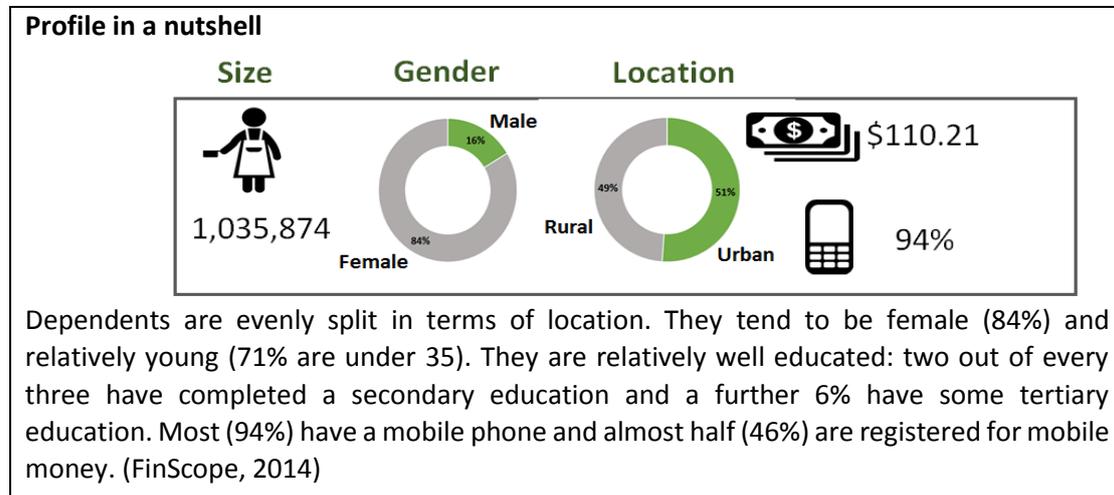
Of those that indicate that they receive some secondary income from agricultural activities, 82% indicate that they do not sell their produce, but farm to supplement their own food intake. Of the 18% that do sell their additional produce, 4% indicated that they sell exclusively to aggregators, 7% indicated that they sell exclusively to the public, whilst 7% indicated that they sell to both the public and aggregators. At an average income of USD1048¹⁰⁰, these secondary farmers are wealthier than the farmers target market in general.

¹⁰⁰ This income figure represents all income obtained by the respondent in their individual capacity. Given that this segment of the Zimbabwean population indicated that an income source other than agriculture was their main source of income, it stands to reason that at least 50% of this income *on average* will be sourced from their primary (non-agricultural) revenue sources.



Dependents

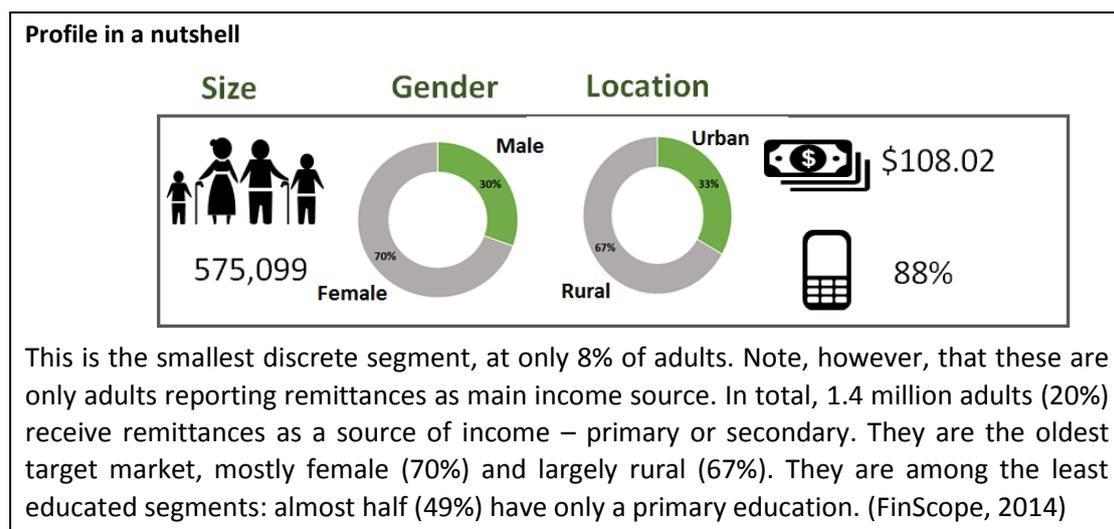
Dependents are defined as those who rely on others in the household or government for their income. They are distinguished from remittance receivers in that they do not report remittances received across a distance as their primary income source.



What are their realities?

In the middle of the income spectrum. Even though they depend on others for their livelihood, these adults do have income at their disposal that could make them viable financial service customers: they earn on average about USD110 per month. This makes them more or less equally well off as remittance receivers and significantly better off than farmers and survivalist workers (FinScope, 2014).

Remittance receivers



What are their realities?

Gogo Hwanja is a 57 year old mother of 3 and resides in Harare with her 3 grandchildren. She is not formally employed and in her spare time, sells snacks as a means of earning some



income. She relies on the remittances she receives from her children who live in South Africa. Her daughter sends her an amount of USD250 per month, while the others send when they can. (Qualitative study, 2015)

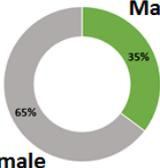
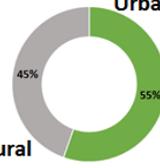
Farming an important source of sustenance. From the qualitative research, it would seem that many of the respondents receive sufficient income to pay for their monthly expenses. Where there is a shortfall, respondents supplement this with other income earned through either selling snacks or second-hand clothes or growing their own vegetables (qualitative study, 2015). 40% of remittance receivers also engage in farming as a source of nutrition and supplementary income. Many wish to grow their farming but are limited by inputs, as the following quote illustrates:

“Good life would be sufficiency for everybody. My grandchildren should grow and my livestock should also keep healthy and increase. My crops... rain for the crops and fertilizer.”

Remittance recipient, Female, 59 years old

MSMEs

Profile in a nutshell

Size	Gender	Location
 864,152		
		 \$199.36  95%

About 865 000 Zimbabwean adults earn their income through self-employment or an own business. About 75% of them do so in the informal sector. 22% of MSMEs are in agriculture, 65% of entrepreneurs are female and next to salaried workers they are the most urban segment¹⁰¹. They earn on average about USD200 a month, making them the next highest earning segment after salaried workers. Almost all of them have a mobile phone. 6 out of every entrepreneurs have completed a secondary education. Once again, only salaried workers are better educated than MSMEs. (FinScope, 2014)

What are their realities?



Tendai is a 41 year old shoe repairer and maker and stays in Chitungwiza with his wife and sons. He also sells snacks and cigarettes as a means of earning additional income. Tendai earns USD200 per month from his shoe business, USD40 from selling snacks and USD60 from hiring out a cart. He also supports his daughter who resides in the rural area. His dream is to grow his

¹⁰¹ Note that these figures may differ from the figures reported in FinScope MSME due to the fact that they survey two different populations. The figure here is based upon the FinScope consumer questionnaire.



business, which he runs along with his eldest son, so that he may build a house for his family.

Remember is 29 years old and hails from Harare. He earns his living through the trade industry, where he informally sells building material. He makes more than USD200 per month; some of this money gets reinvested into the business and the rest goes to the upkeep of his household (which consists of his wife and child) and he assists his parents as well. Through saving, Remember has been able to build his own house in the village where his parents reside. He also owns several livestock. (Qualitative study, 2015)



Largely informal and individual entrepreneurs. According to the FinScope 2012 MSME survey, 85% of MSMEs are not registered or licensed and 72% do not have any employees.

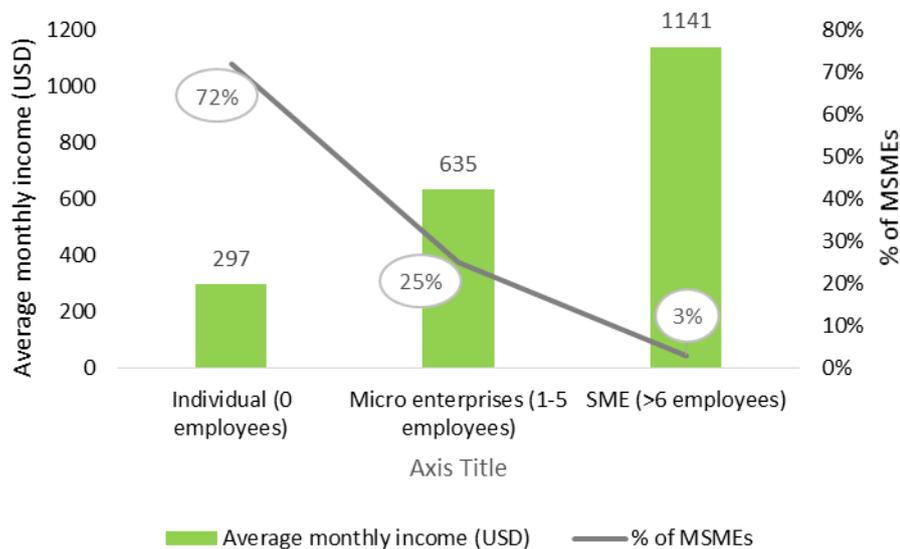


Figure 79: MSME average income and number of employees

Source: FinScope, 2012

Many MSME owners operate their business from residential premises (39%), indicating that there might be a lack of available and/or affordable operational space/working facilities. It might also be out of choice, considering the nature of the business (e.g. small and informal).

Insights from the MSME survey

The FinScope MSME survey of 2012 allows for tailored analysis of the MSME market, including elements that are not typically captured in the broader FinScope survey.

Four sub-segments. The analysis below draws on two unique elements in the MSME survey, namely the reason that the business owner entered into their own business (motivation), as well as the educational capabilities of the business owner (education). When these two dimensions are used to analyse MSMEs in Zimbabwe, the following segments emerge:

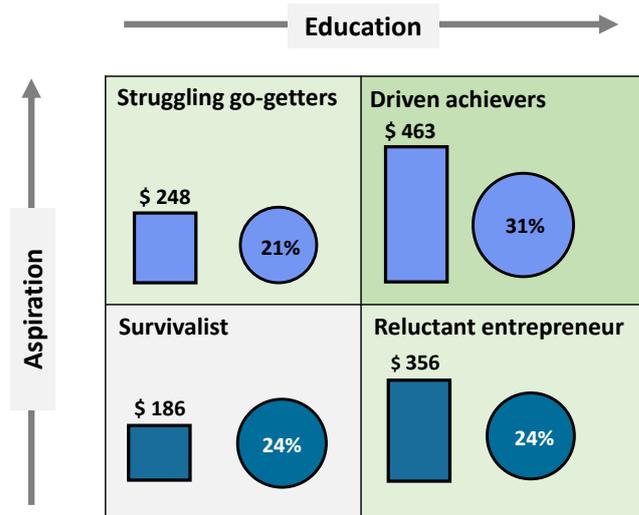
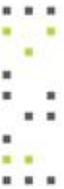


Figure 80: MSME sub-segmentation

Source: FinScope, 2012

Each segment has a distinct profile, with a clear hierarchy emerging across the four segments in terms of likelihood to succeed:

- Driven achievers:** these small businesses have both the motivation and the education levels to “put them ahead” in their businesses. This shows in the fact that they have by far the highest average income of the four sub-segments. They also have the highest profit and turnover by a large margin. At 31% of MSMEs, the driven achiever segment is the largest in Zimbabwe of all the MAP analyses to date.
- Reluctant entrepreneurs:** these entrepreneurs may have the ability to grow, in that they are educated, but they do not have the aspiration to fulfil that potential, for example because they were “forced” into forming their own business when losing their formal employment. They have the second highest income of the four sub-segments.
- Struggling go-getters:** if the reluctant entrepreneur lacks motivation, then the struggling go-getter makes up for a lack of education through high levels of motivation. This is however not enough: lack of access to capital and business skills means that they have the second lowest average incomes.
- Survivalists:** Those small businesses with neither high education nor high levels of motivation are least likely to succeed. They are “entrepreneurs of necessity” who try to make ends meet through trading or other activities because they have no other alternative.

Table 26 below presents some key descriptive statistics for the various sub-segments.

	Driven achievers	Reluctant entrepreneurs	Struggling go-getters	Survivalists
Male/Female	54% male 46% female	37% male 63% female	46% male 54% female	32% male 68% female



% of MSMEs in this category	31%	24%	21%	25%
Average income (USD)	463	356	248	186
% who indicate that they are growing	48%	37%	32%	30%
% who indicate that they are getting smaller	11%	14%	21%	22%
# of employees	1.238	.466	.468	.337
Profit (USD)	3 302	1 160	1 380	806
Turnover (USD)	6 241	4 349	2 501	2 159

Table 26: MSME sub-segment key features

Source: FinScope, 2012

A number of statistically significant trends emerge:

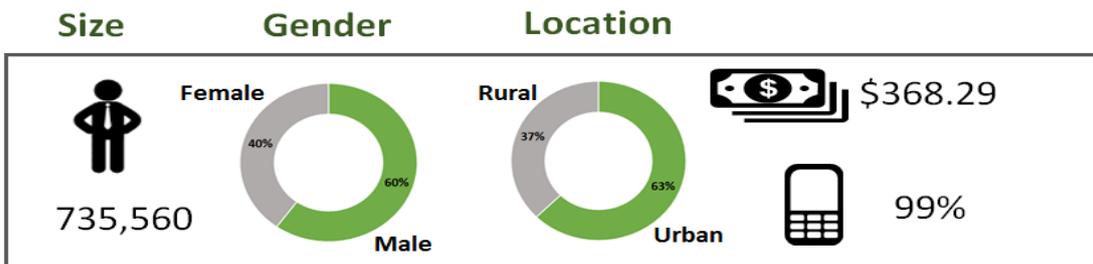
- *Education a prime determinant of success.* Men are more likely to be motivated to enter business for themselves. Education correlates strongly with income, business revenue and profits.
- *Informality uniformly distributed.* The vast majority of businesses classed themselves as informal¹⁰² in all of the categories. This is despite considerable variation in terms of office location, with 13% of driven achievers reporting “formal” offices in the central business district, contrasted with almost no survivalists. In terms of traditionally informal office locations, the inverse holds true: less than 10% of driven achievers sell next to the road, with 34% of survivalists indicating that this is the case for them.
- *Motivation a strong predictor of economic diversity.* In terms of their sectoral decomposition, Driven achievers and struggling go-getters are the most diverse whilst their unmotivated counterparts emerge as the least diverse. Driven achievers are the only segment that indicated that they supply goods or services to other enterprises.
- *Even driven achievers not a core growth engine.* Driven achievers are the only sub-segment that can be regarded as employment-generators, but even they generate very little additional employment other than for themselves.
- *Access to capital not accounted for.* It is important to note that the figures above do not include access to capital. Thus even the superior position of driven achievers on all the indicators noted above does not mean that they have access to capital, or necessarily have the requisite business skills needed to be an engine of growth for the economy. As the discussion above showed, most of them are still only individual entrepreneurs. See Section 5 for an overview of access to capital.

Salaried workers

¹⁰² Lowest (90%) for driven achievers and highest for survivalists (98%).



Profile in a nutshell



Salaried workers are the most educated of the segments (34% tertiary education), but one of the smallest target markets and declining (~736 000). Almost all of them have a mobile phone and 79% are registered for mobile money. They are the least rural group and also the segment with the biggest male skew, at just 40% females, compared to a total population average of 57%. (FinScope, 2014)

What are their realities?

Martha is a 39 year old single mother who works as a nurse at a government hospital in Chitungwiza and earns a monthly salary of USD500. Furthermore, she earns an additional USD200 from working on a part-time basis at a private hospital. She has three children and provides support for her parents. She currently contributes money to a registered housing co-operative, in the hope of being able to purchase a vacant plot of land so that she may own her own home. (Qualitative study, 2015)



Facing many demands. The qualitative research shows that salaried workers vary greatly; some are high income earners, others earn entry-level salaries. Some supplement their income through trading (qualitative study, 2015). Their realities will differ accordingly. As the case of Martha shows, salaried workers may earn a higher income compared to the other segments, but that does not mean that they are without financial troubles. They often have to support others in their extended families. Moreover, qualitative research responses show that they are facing uncertain times and financial challenges.

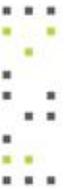
Interviewer: Any notable changes in the country?

Respondent: Our country is ever changing nothing seems to be stabilizing, although things are a bit better than they were before. These days we have no fixed salary dates making it impossible for someone to plan ahead. High unemployment, lots of retrenchment causing the vast proliferation of vendors in the streets.

Government worker, Male, 46 years old

Interviewer: What challenges are you facing in your life?

Respondent: After I lost my husband I'm facing a lot of challenges financially like now as a widow. What I'm getting is not enough. Reducing of the salary because of the economy at work makes my life so difficult to cope with my kids. Sometimes I am struggling money for transport money to go to work.



Private sector worker, Female, 31 years old

Worried about their jobs. The qualitative research suggests that low-end salaried workers may be at risk of having their salaries significantly reduced (qualitative study, 2015). Many of the qualitative respondents make use of various savings mechanisms as an implicit way of insuring against risk. Funeral cover is also prevalent: two of the respondents receive funeral cover from their place of employment (i.e. farmworkers) whereas the others would make use of ‘private’ burial policies. They also make use of loans, should an unexpected bulky expense arise.

Zimbabweans working abroad

Profile in a nutshell

An educated populace without sufficient formal employment opportunities domestically is sure to look abroad. This is evidenced by the large Zimbabwean diaspora, estimated conservatively at approximately 3.3 million¹⁰³. As discussed, the majority of these migrants live in South Africa. Throughout the qualitative research, nearly every family had a member located abroad.

FinScope (2014) does not capture any information on the profile of those not in the country at the time of the survey. However, secondary sources have recorded a skew towards more educated, younger adults, often males, who remit regularly¹⁰⁴.(Qualitative study, 2015)

What are their realities?

James is from Mutare¹⁰⁵. He went to South Africa in search of a better life given the economic troubles at home. He doesn’t get to go home often, it depends on when he gets time off work, but makes a point of visiting once a year. As he has a big family (parents and siblings) to support in Zimbabwe, he sends home about ZAR 7,000 every month. *“Communication with the parents is very crucial, they may be a problem that has come up, for instance if they need to build a toilet and they need your assistance. Then the money will be sent, however it will come with the money for food. My parents always have something that needs to be taken care of with money. They assume because we live in South Africa we are earning more money.”* He prefers to send money home via a bank. Others in his focus group however preferred cross-border bus or taxi drivers. (Qualitative study, 2015).

Support from relatives working abroad was a recurring theme in the MAP qualitative research:

My children in South Africa are buying me everything that I want for example that Television, the wall unit, chairs and stoves, they send all these things with truck drivers or Marachas.”

Remittance receiver, Female, 57 years old

¹⁰³ These estimates are likely to underestimate the size of the diaspora due to the fact that they include only those formally registered.

¹⁰⁴ See, for example the following FinMark Trust studies: Kerzner (2009), DNA Economics (2012), Foshizi (2012).

¹⁰⁵ The source for this qualitative information is a focus group conducted among high-income earning Zimbabwean migrants in KwaZulu-Natal in 2012 by market research firm Foshizi as an input into a FinMark Trust study. No information was collected on the respondents’ jobs in South Africa.



Often formally excluded. Zimbabweans without a formal work permit face absolute barriers to accessing formal financial services in South Africa¹⁰⁶. Until 2015, when an exemption notice was published by the South African Minister of Finance applicable to transactions below a threshold amount that also applies to foreign nationals, inability to provide proof of identity and residential address was also a barrier to formal financial access. Hence a large proportion of remittances flow to Zimbabwe informally, often via cross-border bus or taxi drivers, or are taken in cash when migrants visit home (DNA, 2012).¹⁰⁷.

A target market for financial services in Zimbabwe. Beyond remittances, migrants are increasingly targeted as consumers of financial services inside of Zimbabwe. These take the form of mortgages, investments and insurance products, amongst others, which are registered in the name of the individual abroad whilst the benefit can either be for themselves or dependents in Zimbabwe. Examples of these include products offered by Steward Bank and EcoBank that are offered to the diaspora via ZimSelector. For a more in depth discussion of this, see section 9.3.

¹⁰⁶ For example, research conducted into the policy environment in relation to immigrants and access to financial services by Jewison (2012).

¹⁰⁷ A FinMark Trust study (DNA, 2012) estimates that 68% of remittances from South Africa to the rest of SADC are sent informally.



Appendix B: CURRENT UPTAKE: Usage profile of each target market segment

Survivalist workers

Least served target market. Figure 81 below indicates the access and product strands for survivalist workers. Only 13% of survivalist workers are banked. Their formal usage is driven by non-bank formal products, largely mobile money (reflected in the remittances strand). Formal usage of savings, insurance and especially credit is very low. Instead, they turn to others in the community: 18% borrow from family and friends. Savings are also mainly in informal institutions such as Mukando or at home.

Interviewer: So where do you save

Respondent: "In a clear bottle"

Unemployed piece worker, Female, 55 years old

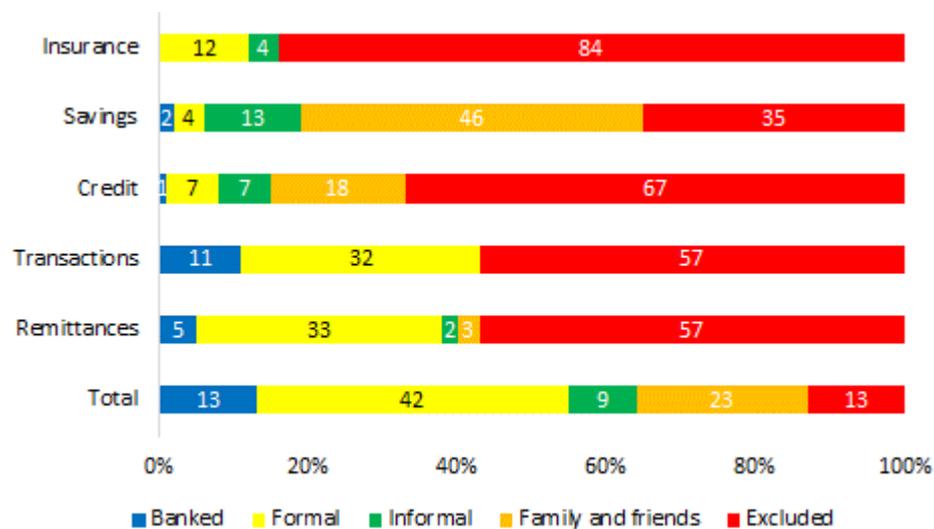


Figure 81: Financial service usage by survivalist workers as a percentage of survivalist workers

Source: FinScope, 2014



Farmers

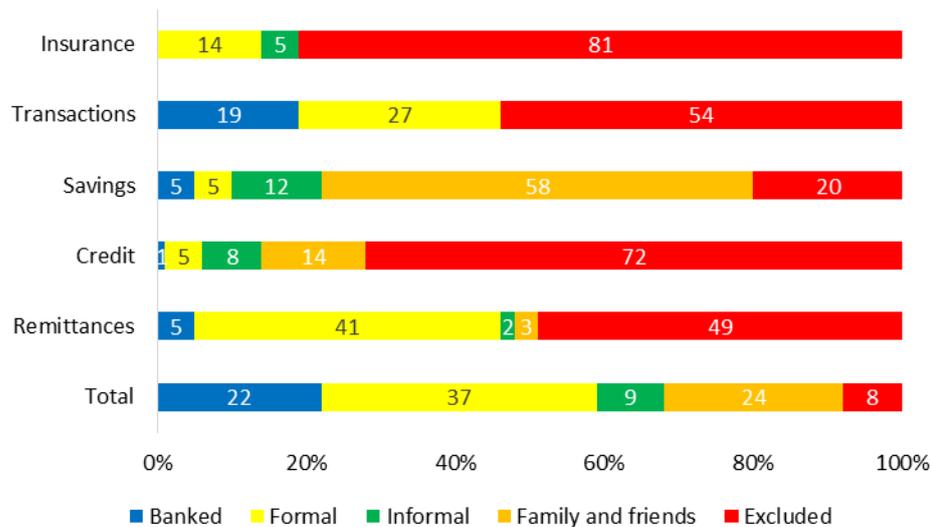


Figure 82: Financial service usage by farmers as a percentage of farmers

Source: FinScope, 2014

Low total exclusion. Only 8% of farmers are financially excluded. This rises to 32% when not considering family and friends as a source of financial services, making farmers the second most excluded segment. In absolute terms, however, Farmers are the largest users of non-bank formal products (1.4 million) and informal products (906,512) due to their large population size. (FinScope, 2014)

Payments, informal financial services play biggest role. On average, farmers closely match the product usage profile of the total adult population. Payments (transactions and remittances) is the most-used formal financial service type. This can largely be ascribed to the impact of mobile money. In the other product markets, farmers are mainly served by informal mechanisms. This is especially true for savings. When including family and friends, the percentage of farmers who save in some way increases from 22% to 80%. 15% of farmers save in informal channels such as Mukando and 76% of them save at home, with a friend or in assets such as livestock, while only 5% and 7% save at banks and non-bank formal institutions respectively. Similar to savings, 8% of farmers rely on credit from informal providers whilst 18% rely on family and friends, compared to only 1% that have credit from a bank. Most farmers does not have any insurance – formal or informal. They are the second most uninsured target market, meaning that they have to rely on other methods such as community support or alternative capital sources from products like savings and credit. (FinScope, 2014)

Some overlap between formal and informal usage; limited usage across product types. A significant proportion (14%) of farmers use informal products despite having a formal or banking product. This closely matches the overlap for the total adult population (at 13%). Farmers are the segment most likely to have only one type of product. Only 19% have two types of formal products and a mere 1% have all four types of formal products. Informal financial services increase the depth of access: 31% of farmers have more than one product type when considering formal and informal products. However, those that have a full suite of products rises to only two percent. (FinScope, 2014)



Dependents

Access is driven by remittance products. The access and product strands for dependents (as shown in the figure below) shows that dependents have a fairly unique usage pattern. Total exclusion is only 10%, rising to 25% when not including family and friends, yet each of the product markets has fairly high exclusion. As with most other segments, that suggests limited overlaps in usage across product markets –only 34% are formally served across two or more product markets. It is apparent that dependents need transaction and remittance products to receive their income. Formal non-bank remittance products are the largest contributor to access for dependents at 57% take-up. Beyond family and friends, take-up of savings and credit is limited. A fairly large proportion (30%) have some form of insurance. It is likely that they are included on the policy of the main breadwinner in the household. (FinScope, 2014)

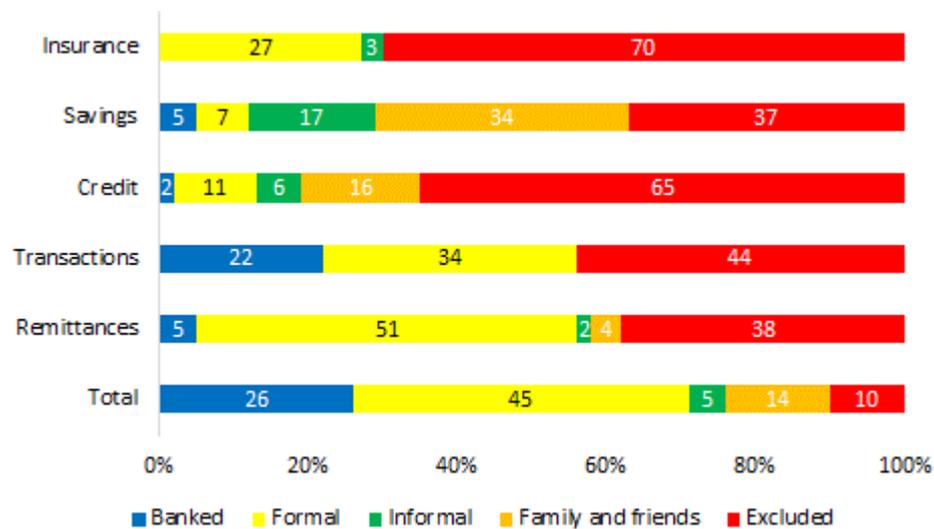


Figure 83: Financial service usage by dependents as a percentage of dependents

Source: FinScope, 2014

Remittance receivers

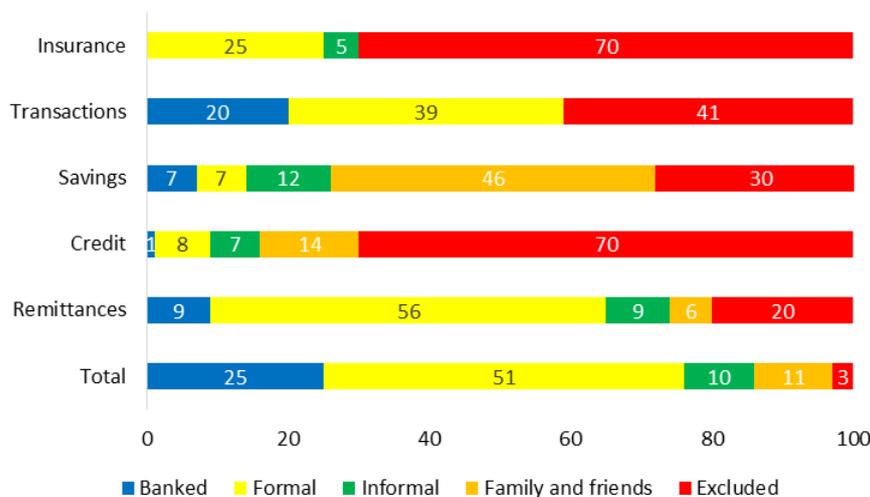


Figure 84: Financial service usage by remittance receivers as a percentage of remittance receivers

Source: FinScope, 2014



Limited access outside of remittance products. As can be expected, remittances are the largest contributor to total access for remittance receivers. 9% turn to banks for remittance services and a further 56% make use of non-bank formal services. Only 20% do not use any remittance mechanisms. Remittance Receivers have much lower access to the other product markets. Accordingly, depth of access is low: only 31% are formally served across more than one product market, rising to 44% if informal services are also taken into account. (FinScope, 2014)

MSMEs

Figure 85 below shows the total access strand as well as the five product strands for MSMEs in Zimbabwe:

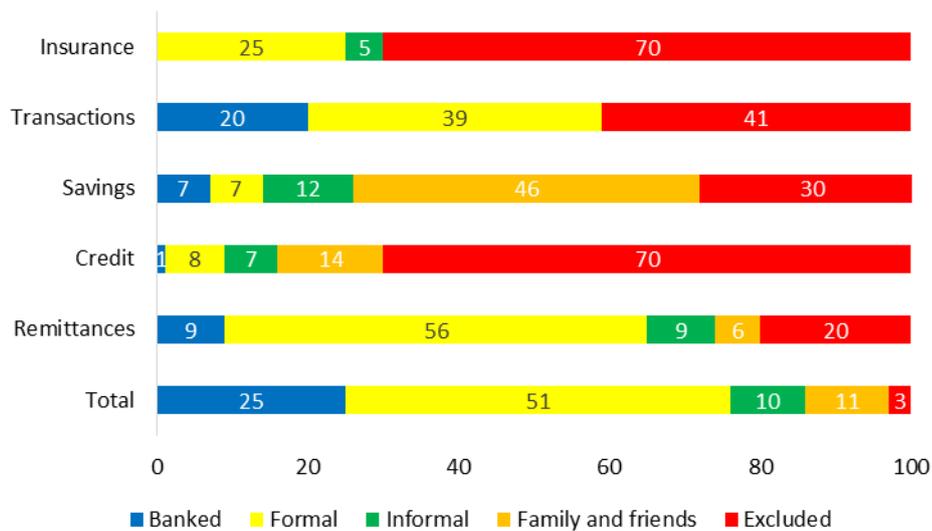


Figure 85: Financial service usage by MSMEs as a percentage of MSMEs

Source: FinScope, 2014

High levels of inclusion but low depth of access. 13% (116 000) of MSMEs do not use any financial services intermediated through a third party. Exclusion reduces to 5% when taking into account financial services from friends and family. This is the second lowest percentage excluded after salaried workers. They also have relatively high depth of access compared to most other segments. 42% are formally included across two or more product markets. MSMEs are the segment for which informal services make the biggest difference to depth: adding informal services increases the percentage with two or more product types to 57%. (FinScope, 2014)

Access driven by remittance products. Formal non-bank remittance products play an important role in the financial usage of MSMEs. 62% of MSMEs use non-bank formal remittance products compared to 7% that use banks and only 1% that use informal channels such as buses and taxis. (FinScope, 2014)

Limited credit mainly from friends and family and high cost lenders. Almost two out of every three MSMEs do not have any credit. 16% of MSMEs borrow from family and friends and 9% obtain credit from informal money lenders such as Chimbadzo. Only 3% of MSMEs receive credit from banks and a further 8% receive credit from non-bank formal institutions. Non-bank



providers such as MFIs and informal lenders are characterised by high cost of credit. This means that with limited access to bank credit, MSMEs are faced with high lending rates from those providers that have appetite to lend to them. Friends and family may have more lenient borrowing terms. (FinScope, 2014)

Low insurance usage. 65% (561 000) of MSMEs do not have any form of insurance and will have to rely on other methods such as borrowing or using savings to respond to risk events. Nevertheless, at 31% formally insured, they are the second best insured segment after salaried workers. (FinScope, 2014)

Interviewer: so have you ever found yourself in a situation where you need insurance?

Respondent: Yes, it was last year when my shop got run over by a car but I was only helped by the members of my group, I went to the chairlady and I told her about my problem so she called for a meeting and they agreed that they were going to borrow me USD500 to start over but without interest. I rebuilt my tuck shop and bought another stock of goods.

Informal trader, Female, 31 years old

Income a significant driver of access. MSMEs earning a higher income are better served by formal financial services with only 3% (10 000) of those earning more than USD1000¹⁰⁸ not using any financial services. On the other hand, MSMEs earning less than USD300 have a higher exclusion rate at 13% (14 000). Access to formal credit is limited even for wealthier MSMEs with only 4% (15 000) of those earning more than USD1000 a year borrowing from banks. (FinScope, 2014)

Salaried workers

Best served target market. As the access strand figure below indicates, salaried workers have the highest inclusion rate with only 1% not having access to any financial services. Salaried workers also have the highest depth of access, with 78% being served across more than one formal product market: 16% have products across two product markets 30% are served across three markets and 32% across all four product markets. The high level of access is largely driven by payments products, with only 15% not using any remittance products and only 8% no transaction products. 85% of salaried workers use remittance services. This usage is virtually all formal. 83% of salaried workers make use of formal remittance channels: 8% transact remittances through a bank and 75% use formal non-bank channels such as mobile money. (FinScope, 2014)

¹⁰⁸ Income figures in the current paragraph are yearly income figures.

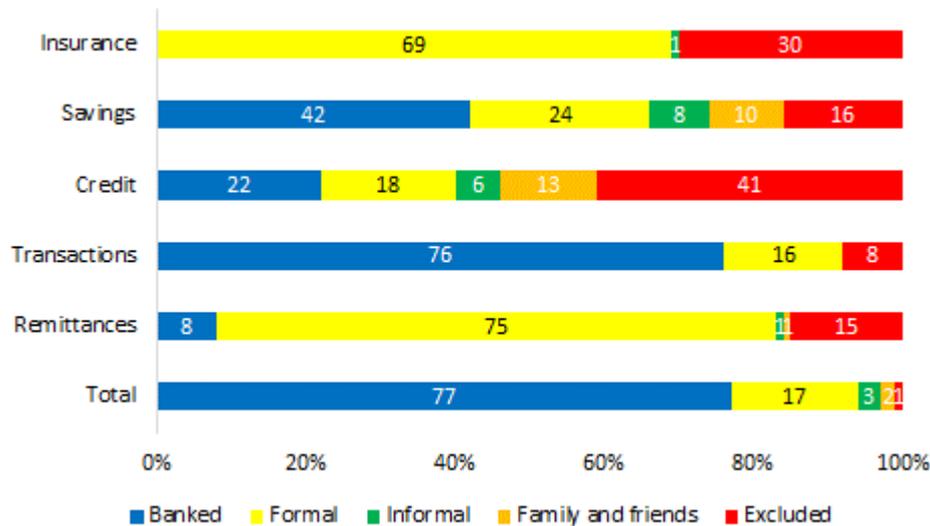


Figure 86 : Financial service usage by salaried workers as a percentage of salaried workers

Source: FinScope, 2014

High levels of insurance, savings. Salaried workers are a prime target market for insurers due to the regularity and level of their income (required for regular premium payments) and the fact that they can be cost-effectively reached via their employers. Thus it is not surprising that they are by far the best-insured target market at 69% formal insurance penetration. Their superior financial position also means that salaried workers have the highest usage of savings products, with only 16% not saving at all. This saving is predominantly through bank and non-bank institutions, which are used by 66% (488 000) of salaried workers. Although not readily evident in the figure above, saving in non-bank formal services is higher, in total, than saving in banks (58% versus 42%). This speaks to the generally diminished level of trust in banks as a result of the impact of dollarization and loss of savings during hyperinflation. (FinScope, 2014) Thus salaried workers use their bank accounts to receive their salaries, but prefer to keep their money saved elsewhere, as illustrated by the following quote:

Interviewer: What is your attitude towards banks?

Respondent: I lost trust with banks as they were also affected by this inflation in this country. I have no choice but to have an account. That is the only alternative for me to get my salary. Bank charges are too much high.

Government worker, Female, 39 years old

Informal mechanisms meeting some needs. While salaried workers are well served by formal financial service providers, informal mechanisms also play a role, especially in terms of credit and savings. Family and friends are the largest providers of credit to salaried workers (36% in total, 13% family and friends only) and a total of 50% of them use informal savings mechanisms such as Mukando (3% use only such mechanisms). (FinScope, 2014)



Annexure C: PROVIDER-SPECIFIC OVERVIEW: Money transfer operators (MTO) tiers

The table that follows below provides a breakdown of the Authorised Dealers with Limited Authority (ADLA) registered in Zimbabwe.

Authorised Dealers with Limited Authority		
First Tier	Comprises of locally incorporated money transfer operators partnering with approved international money transfer organisations or use own systems and are permitted to carry out both inward and outward international remittances. They can also buy and sell foreign exchange on a spot basis.	
Name of operator	Costs	Regulatory processes
People's Own Savings Bank	Collateral deposit of \$100,000. Licensing fees: \$1000 for head office and \$400 per branch. Annual renewal fees: \$800 for head office and \$200 per branch.	Stage 1: Submission of duly completed Exchange Control Application Form with all necessary attachments, including proof of prefunding arrangements. If application process is successful, applicant is given 14 working days to proceed to stage 2. Stage 2: Applicant makes collateral deposit and pays requisite licensing fees. Applicant must then deploy money transfer and reporting system within 60 working days. Request Exchange Control for a pre-opening inspection. Stage 3: Exchange control carries out pre-opening inspection which includes money transfer and reporting system validation, inspection of physical premises and verification of key personnel. If pre-opening inspection is successful, then the applicant is given 30 days to commence operations.
Stanbic bank Zimbabwe Ltd.		
Econet Wireless		
Express Financial Services		
Ecobank Zimbabwe		
CABS		
Easy Money Transfer Ltd		
Send Money Home Ltd		
Steward Bank		
Coporeti Support Service Pvt Ltd		
Zimbabwe Post Pvt Ltd		
Second Tier	Locally incorporated money transfer operators operating as money transfer agencies by either partnering with approved international money transfer operators or use own systems to carry inward international remittances only. They can also buy and sell foreign exchange on a spot basis.	
Name of operator	Costs	Regulatory processes
True Value Bureau de Change Pvt Ltd t/a Pacific	Collateral deposit of \$50,000 (only if the ADLA uses its own system or solely collects from customers for inward transfers and pay out to beneficiaries). Licensing fees: \$1000 for head office and \$400 per branch. Annual renewal fees: \$800 for head office and \$200 per branch	Stage 1: Submission of duly completed Exchange Control Application Form with all necessary attachments. If application process is successful, applicant is given 14 working days to proceed to stage 2. Stage 2: Applicant makes collateral deposit and pays requisite licensing fees. Applicant must then deploy money transfer and reporting system within 60 working days. Request Exchange Control for a pre-opening inspection. Stage 3: Exchange control carries out pre-opening inspection which includes money transfer and reporting system validation, inspection of physical premises and verification of key personnel. If pre-opening inspection is successful, then the applicant is given 30 days to commence operations.
Africa Coin Mobile Money Pvt Ltd		
Bonga Travel & Financial Services		
MetBank Ltd		
MBCA Bank		
Solten Financial Services		
CBZ Bank		
Simukai Financial Services		
Campion Forex Services t/a Hand2Hand		
NMB Bank		
OK Zimbabwe Ltd t/a OK Money Wave		
Kaah Express Financial Services Pvt Ltd		



Authorised Dealers with Limited Authority		
Third Tier	Locally incorporated financial services providers, which only buy and sell foreign currency on a spot basis.	
Name of operator	Costs	Regulatory processes
Barnfords Global & Financial Services	Does not pay collateral deposit. Licensing fees: \$1000 for head office and \$400 per branch. Annual renewal fees: \$800 for head office and \$200 per branch.	<p>Stage 1: Submission of duly completed Exchange Control Application Form with all necessary attachments. If application process is successful, applicant is given 14 working days to proceed to stage 2.</p> <p>Stage 2: Applicant makes collateral deposit and pays requisite licensing fees. Applicant must then deploy money transfer and reporting system within 60 working days. Request Exchange Control for a pre-opening inspection.</p> <p>Stage 3: Exchange control carries out pre-opening inspection which includes money transfer and reporting system validation, inspection of physical premises and verification of key personnel. If pre-opening inspection is successful, then the applicant is given 30 days to commence operations.</p>
Armount Trading Pvt Ltd t/a Zimexpress		
SuperDeal Enterprises Pvt Ltd t/a Kwikforex		

Table 27: Authorised dealers with limited authority in Zimbabwe

Source: RBZ, 2015



Appendix D: SAVINGS: Breakdown of savings uptake across different groups of people

This appendix provides a breakdown of savings by demographic and target market factors.

Figure 87 breaks usage down across target market segments.

Greater urban access; more rural savers. There is higher access to savings products in urban areas, proportionately, than in rural areas. However, in absolute numbers rural penetration is just short of double that of urban access (2 million adults versus 1.2 million adults). This access is evenly balanced between urban and rural for formal services, but informal access and saving at home have much greater penetration in rural areas (triple and double that of urban adult numbers, respectively).¹⁰⁹

Limited gender differences. There is a fairly even gender balance of access to financial services. In absolute numbers, more females save, but there are also higher levels of exclusion from saving among females. Males have greater access to formal savings, while females have greater access to informal savings. The latter is driven by a cultural norm that these informal groups are predominantly female.

The more educated you are, the more you save. A higher proportion of adults with secondary education or above access savings (31% of adults or 2 199 922 adults) than those with primary school or less (15% of adults or 1 048 832 adults). Adults that access formal savings have far higher levels of education than both the population average and adults accessing informal channels or saving at home¹¹⁰. Excluded adults hold the lowest education levels.

¹⁰⁹ Informal savings are accessed by 24 309 adults in urban areas and 784 770 adults in rural areas. Saving at home is done by 270,712 adults in urban areas, as compared to 577,597 adults in rural areas. (FinScope, 2014)

¹¹⁰ The general population split between primary education or less and secondary education or higher is 41% to 59%, while this split is 33% to 70% for savings access, respectively (FinScope, 2014)

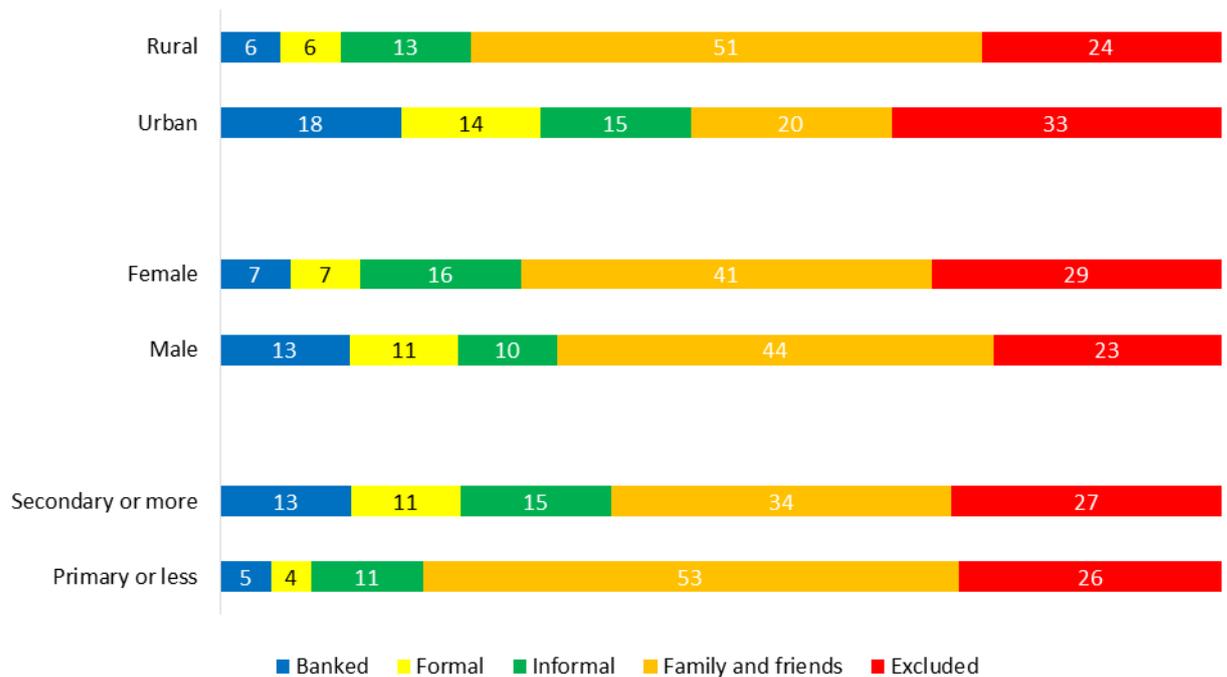


Figure 87: Demographics of savings access as a percentage of Zimbabwean adults.

Source: FinScope, 2014

Figure 88 breaks usage down across target market segments:

Salaried workers the best served. With 66% formal access, salaried employees have the greatest access to formal savings. Conversely, this target market utilises the lowest number of informally provided savings. Their overall access, including informal savings, is 80%. Most target markets are largely underserved by formal services. Particularly notable is the low level of bank usage outside of salaried workers (proportionately the least accessed method of saving).

Large number of farmers saving. Farmers and survivalist workers are proportionately the least well served target markets. Farmers are however the largest group of savers when considering absolute numbers of savers (958 306 adults). They have to rely predominantly on informal financial services (16%) in comparison to 10% formal savings usage.



Total savers

892523 adults (13%)
575099 adults (8%)
1035874 adults (15%)
864152 adults (12%)
2537096 adults (36%)
735560 adults (11%)

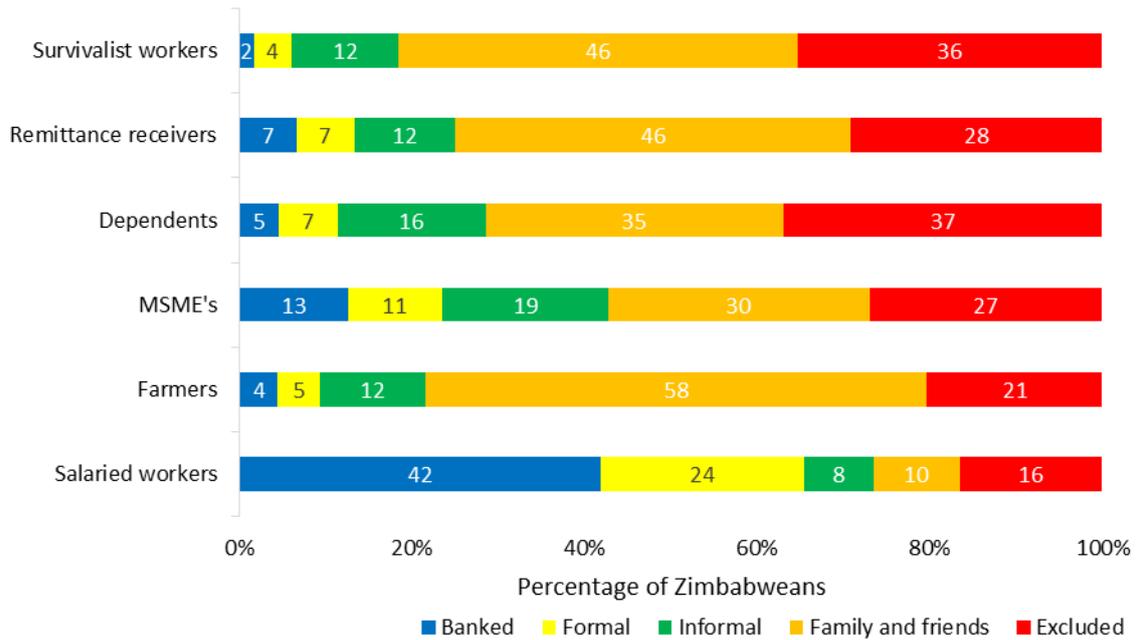


Figure 88: Saving strand by target market as a percentage of Zimbabwean adults

Source: FinScope, 2014

Those who are wealthier or have lumpy income flows save more, but poorest segments save largest proportion of income. As Table 28 below indicates, consumers save more as incomes increase, with the wealthiest target markets (salaried workers and MSMEs) saving the most in absolute values. When considering the proportion of salary saved, target markets with seasonal or unpredictable incomes (such as survivalist workers, farmers and MSMEs) set aside the greatest percentage of their incomes, which is indicative of the need for consumption smoothing.

Target market	Averages savings value (USD)	Average income per target market (USD)	% of income saved
Salaried workers	440	4 419	10%
Farmers	112	921	12%
MSMEs	274	2 392	11%
Dependents	105	1 323	8%
Remittance receivers	84	1 296	6%
Survivalist workers	112	829	13%

Table 28: Average annual savings and income comparison per target market

Source: FinScope, 2014



Appendix E: SAVINGS: Client profile overview

This appendix provides an overview of the client profile of various savings providers (see section 9.2)

	Bank		Retirement funds		Mobile money savings		Informal savings groups		Saving in assets		Saving at home		Total population	
	No. of adults	%	No. of adults	%	No. of adults	%	No. of adults	%	No. of adults	%	No. of adults	%	No. of adults	%
Average income of customer (USD)	398	-	368	-	271		201	-	198	-	159	-	134	-
No. of customers	683 000	-	623 000	-	389 000	-	751 000	-	832 000	-	1 626 000	-	6 996 000	-
Demographics														
Rural customers	308 000	45	292 000	47	194 000	50	465 000	62	638 000	77	1 068 000	66	4 923 000	70
Male customers	394 000	58	397 000	64	227 000	58	203 000	27	439 000	53	745 000	46	2 998 494	43
Customers with secondary education or more	550 000	80	488 000	86	336 000	86	549 000	73	526 000	63	1 080 000	66	4 119 000	59
Target market split														
Salaried workers	308 000	49	334 000	61	99 000	27	136 000	19	112 000	14	203 000	25	736 000	11
Farmers	113 000	18	95 000	17	84 000	23	183 000	26	334 000	42	520 000	65	2 537 000	36
MSMEs	108 000	17	45 000	8	89 000	24	139 000	20	120 000	15	270 000	34	864 000	12
Dependents	47 000	8	37 000	7	46 000	12	126 000	18	72 000	9	225 000	28	1 036 000	15
Remittance receivers	38 000	6	24 000	4	28 000	8	49 000	7	75 000	9	184 000	23	575 000	8
Survivalist workers	15 000	2	14 000	3	26 000	7	78 000	11	92 000	11	159 000	20	892 000	13
Key														
Greater than population average														
Less than population average														

Table 29: Profile of saving providers' clients

Source: FinScope, 2014



Appendix F: SAVINGS: Overview of short-term and long-term savings product suite

Short-term and flexible products

This section discusses flexible and/or short-term savings products. *Flexible products* are product offerings that provide customers liquid access to their savings capital (also called *demand deposits*). *Short-term products* are products that lock in savings for a period of a year or less. These two descriptions are often complementary, however, there are some products which might be short-term, but not flexible, and vice versa.

All short-term providers offer both on-demand savings products and fixed-term products. As shown in Table 30 below, banks and savings groups both offer on-demand savings products as well as fixed-term products. MMOs also have a fixed-term deposit option in the pipeline to add to their current demand deposit offering. This provides customers with the option to choose between higher return and a commitment device¹¹¹ on fixed-term products, versus more flexibility on demand deposits.

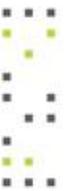
Provider	Short-term products	Interest rate range	Distribution link of each provider
Banks	<ul style="list-style-type: none"> • Demand deposits - savings • Fixed term deposits (<1 year) • Call deposits (<1 year) 	1%-16%	Ease of access in urban areas and for those linked to MNO wallets
Mobile money operators	<ul style="list-style-type: none"> • Demand deposits - savings • Fixed term deposits - forthcoming (<1 year) 	3%	The provider that offers savings has a wide reach in both urban and rural areas
Deposit taking MFIs	No savings offering currently	No products offered as yet	Only one institution enabled currently. The general MFI base is mostly urban and has a limited branch network. Some MFIs connect into mobile money to facilitate ease of credit payments, it is possible this could be used as an encashment link as well to extend access to savings
Savings groups	<ul style="list-style-type: none"> • Demand deposits – savings (formal groups) • Fixed deposits (formal and informal groups) • Call deposits (formal and informal groups) 	0%	<p>Sixty eight per cent of these groups are rural. Groups are community based and therefore have an easily to reach distribution touch point, although interaction is restricted to group meeting times.</p> <p>For formalised savings groups, such as SACCOs, they are more urban and peri-urban access, with branches or offices as their distribution channel. This geographic location is notable for those that are focused on agriculture, a predominantly rural population.</p>

Table 30: Overview of short-term and flexible products

Source: Authors' own, compiled from data supplied by providers, information on websites and mystery shopping

Cost effective entry-level savings options exist across short-term providers. Table 31 below summarises the features of available products on the market.

¹¹¹ A **commitment device** is a technique where someone makes it easier for themselves to avoid akrasia (acting against one's better judgment).



Entry level accounts		Bank	Mobile money savings	Informal savings groups
Eligibility requirements	KYC light	I.D. (limited value)	I.D.	N/A
	Full KYC	I.D., proof of address and income, \$5 > minimum balance		
Interest rate		0.5%-5%	3%	0%
Fees (Basic)	Monthly service fee	Free	Free	Free
	Management fee	Free	Free	Free
	Deposit fee	Free	Free	Free
	Withdrawal fee	1% of amount, min \$3-5	\$0.2 >, no min value	Free
Fees (Additional)	Debit order bounce	\$1 >	N/A	Free
	Statement request	First free, thereafter \$2-\$5	\$0.05	Free
Lowest minimum balance		\$5	\$0	USD 3-200 p.m.

Table 31: Overview of entry level savings accounts¹¹²

Source: Authors' own compilation, based on data supplied by providers, information on website, mystery shopping and qualitative demand-side research

Low-cost model for informal savings groups. Informal savings groups are run by community members and therefore operate on a low overhead cost basis. Minimum contributions are agreed to by group members and a regular collection period is enforced, assisting with savings discipline. Interest is charged on savings deposits on-lent to group members, which effectively increases the savings contributions “cost” of the groups. This technically could count as interest earned on savings products, but due to the fact that it is only contributed by group members, it is effectively an additional savings contribution and not a return earned on the deposit base.

Deflationary environment provides positive real returns on savings. Table 32 below calculates the net return, after costs, for USD5 and USD10 saved per month, respectively, in each of the three channels. The deflation experienced since 2014 is providing positive real returns on savings. The greatest real return is provided by mobile money savings, with MNOs offering 3% per annum on their entry-level savings products, versus 2% per annum in banks.

¹¹² This table provides an overview of the average product features across entry-level short-term savings accounts.



	Bank		Mobile money		Informal savings groups	
	5	10	5	10	5	10
Amount per month saved (USD)	5	10	5	10	5	10
Base deposit over year (USD)	60	120	60	120	60	120
Less deposit fee each month (USD)	-	-	-	-	-	-
Annual interest (compounded monthly) (%)	1.21	2.42	1.82	3.65	-	-
Sub-total (USD)	61.21	122.42	61.82	123.65	-	-
Less withdrawal fee (USD)	3	3	0.03	0.60	-	-
Less statement request (x1) (USD)	-	-	0.05	0.05	-	-
Nominal value of savings (USD)	58.21	119.42	61.74	123.00	60.00	120.00
Real value of savings (USD)	58.34	119.68	61.88	123.27	60.13	120.26
Change between nominal and real value (%)	-2.77	-0.26	3.13	2.73	0.22	0.22

Table 32: Exploration of real value of savings

Source: Authors' own based on product data collection across providers

KYC-light accounts increase the potential accessibility to low value savings. The shift to KYC-light accounts that allow for limited value of savings with easier eligibility requirements shows potential for extending savings access for low-value demand. The rapid uptake of the current account equivalents of these savings accounts shows potential untapped demand (stakeholder consultations, 2015).

Strong growth potential of savings groups leveraged by both savings groups and formal providers. Informal groups provide convenient short-term savings options that hold the commitment device of an agreed to minimum contributions for an allotted period (this can be time or goal related). The advantage of a commitment device enhancing saving behaviour can become a negative factor if community pressure to contribute or take out a “loan” from the funds (see section 7) pressures members to contribute beyond what is feasible for them. Nevertheless, there is strong potential for growth in localised savings groups due to the community-based nature generating trust in an often unstable savings environment, as well as due to the positive factors of convenient access to encashment and the community ties these groups create. This is especially relevant in the growing informal economy that requires accessible capital and support by the community.

Interviewer: “Do you have a comfortable environment with your neighbours especially when you are in trouble at home or when your business fails?”

Respondent: Yes, they do help especially in terms of need and that’s why we have [a] round that we joined. Talk of my business, if there are people who are giving hiccups or disturbances there are some who would help or assist me and sometimes sell my stuff when I am not there.”

Informal trader, Male, 41 years old

MMOs and banks are leveraging the growth in saving via community groups by providing savings accounts for savings clubs that incentivise deposits through providing convenient access and the possibility for interest returns.¹¹³

¹¹³ For example: https://www.econet.co.zw/EcoCashdiaspora/saving_club.html, <https://www.econet.co.zw/media-centre/general-news/EcoCash-savings-club-launched> and <http://www.posb.co.zw/personal-banking/>



Long-term fixed products

Long-term savings provide good real returns, but access is predominantly limited to urban areas. See Table 33 below. The main long-term providers are predominantly based in urban areas, though the reach of banks is extending as outreach by MMOs increases due to the ability to encash via links to MMO wallets. In the 2014 inflationary environment the long-term savings market provided real value returns of an average of 8% for banks and 11% for retirement funds. This is high when one takes into account that Eurozone retirement funds returned an averaged real return of 3% over the period 2000-2013 (Berthon et al, 2014).

Provider	Products offered	Return range offered	Distribution link*
Banks	<ul style="list-style-type: none"> Fixed term deposits (>1 year) Call deposits (>1 year) Investments – Shares, bonds, unit trusts, etc. 	1%-17%	Ease of access in urban areas and for those linked to MNO wallets.
Pension funds	<ul style="list-style-type: none"> Retirement annuities Pension fund policies 	11%	Ease of access in urban areas and via bank links.

Table 33: Overview of long-term fixed products

Source: Authors' own compilation, based on information supplied by providers, information on websites and mystery shopping

Retirement funds dominant long-term savings provider. As outlined in section 8.2.3.2 retirement funds hold over double the value of long-term savings to banks with USD2.1 billion in deposits versus USD1 billion, respectively. However, they serve a client base that is limited to salaried workers at the high end of the market.

Increasing levels of formal long-term savings deposits from a low base. See Figure 89 below. There has been a steady increase in the value of long-term formal savings from 2009 to 2014. While this growth is significant, it has occurred from a low base and in 2014 was only a third of the value of savings held in short-term savings. It must be noted that these numbers include both retail and corporate deposits.

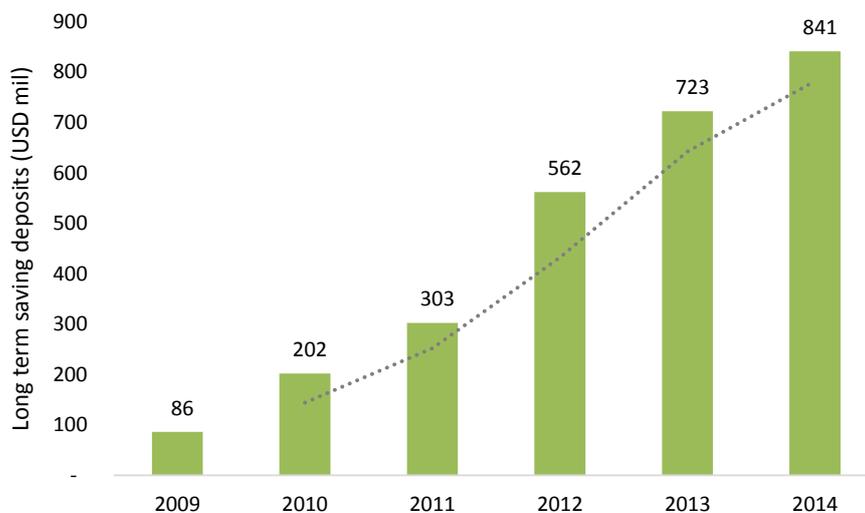


Figure 89: Value of long-term formal savings (2009-2014)

Source: RBZ, 2015



Low growth potential for saving through retirement funds. Private pension funds declined during hyperinflation, although contributions are now on the increase from a low base. The government-funded pension fund is providing low value contributions across the board. It is mandatory for employees between 16-65 years of age to contribute (see section 8.2.3.2). Given the decline in salaried workers, a key target market for this product category, and the need for the sector to recover from the hyperinflation period, the potential for growth is not high currently (see section 4). 27% of adults plan to cope in retirement by either relying on their community or continuing working, while 31% state an intention to save for retirement (FinScope, 2014). Further, a high number of potential pensioners defer their pensions to a later date (see section 8.2.3.2). This shows evidence of a customer base that is struggling to rebuild pension savings and will need to make alternative plans.



Appendix G: SAVINGS: Access and usage barriers in the savings market

This section outlines the main access and usage barriers to greater uptake of formal savings in Zimbabwe:

Access barriers

Affordability

Low and reducing income levels are reducing excess funds available for saving. The analysis has shown that income levels are low and decreasing. Low income levels increase the opportunity cost of allocating funds to saving. 78% of those adults that do not save stated in FinScope (2014) that the main reason for this was having no money left over after household expenses. The qualitative demand-side research also indicated a reduced ability to allocate funds to saving in recent years (qualitative study, 2015).

Interviewer: “Do you ever save in EcoCash or anywhere else?”

Respondent: I used to save back then but not anymore because I cannot afford to now.”

Farm worker, Male, unknown age

Banks fees seen as too expensive, especially in comparison to mobile money. It was highlighted by a number of respondents in the qualitative study that bank charges for saving were either too expensive in general, or in particular that they were too expensive compared to mobile money. The product analysis in Appendix E does not support this point. Cost effective entry-level products through formal providers do exist. However, while banks are providing low-cost savings accounts, the bank-backed products provided by MMOs have a lower cost overall.

Proximity

Savings groups and MMOs within reasonable reach of customers, but banks are located outside of easy proximity. 49% of adults (3 428 000 adults) listed quick or easy access to savings as an important decision-making factor in taking up savings (FinScope, 2014). Informal providers are generally in close proximity, as these groups are community-based and therefore by design are easily accessible. Formal providers, on the other hand, tend to locate touch points in a more centralised manner – see Figure 90 below for more information:

- Mobile money agents (including grocery stores) and potential bank agents are within a short walking distance of just over half the adult population (between 10-30 minutes’ walk);
- Banks are less accessible, with the average client taking between 11-30 minutes to reach a touch point (35 minutes on average); and
- The main mode of transport stated is walking for the majority of general life activities such as reaching school or a grocery store, with public transport coming through as the other significant mode of transport (FinScope, 2014).

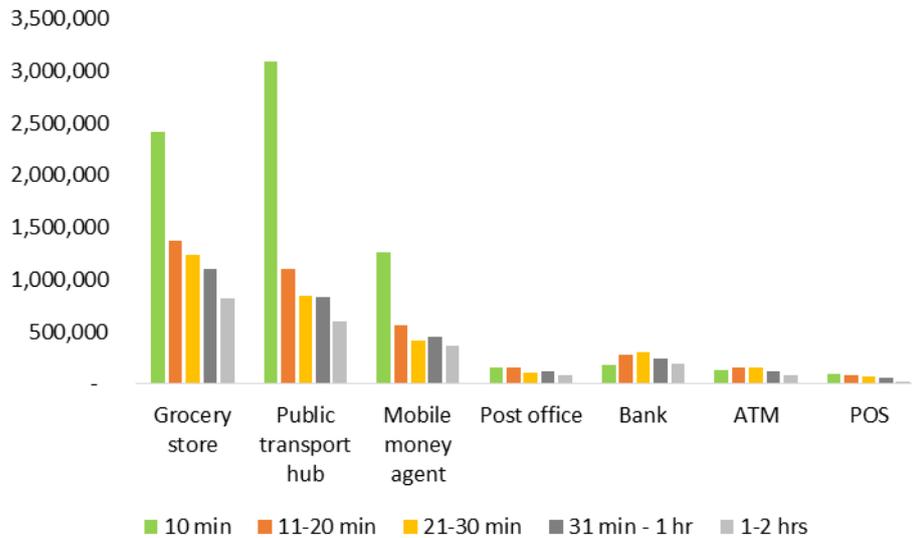
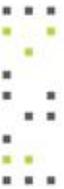


Figure 90: Distance travel to financial sector touch points (no. of adults)

Source: FinScope, 2014

The qualitative demand-side research also provided evidence of the ease of proximity of MMOs:

“EcoCash is faster, reliable readily available and dependable way of sending and saving money”

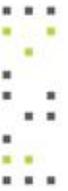
Informal trader, Female, 34 years old

Appropriateness

Informal savings clubs provide the only commitment device to save. Ensuring that saving is sufficient for stated goals often requires a commitment device to ensure that a person takes on the opportunity cost in the short-term for the purpose of building up funds for a longer term goal. Informal savings is the only major channel currently in the short-term savings space providing a product with this feature. Retirement-fund savings are another form of commitment device, but the active use of this product is limited and declining.

Eligibility

Low eligibility barriers in short-term savings products, but possible KYC compliance barriers for long-term products. As shown in the savings product analysis (see section 9.2), eligibility for formal and informal short-term products does not act as a high barrier to saving. Banks and MMOs provide products with reduced KYC requirements to make low-value savings accessible to anyone with an identity document. This has an implicit value barrier that might mean eligibility barriers remain for those that require higher value savings instruments. Long-term products at banks and retirement funds require the usual supporting documents required for full KYC. This is a barrier for those unable to access the required proofs.



Usage barriers

Trust

Mobile money more trusted than banks. Trust in the security of the savings is a key factor in product choice. Supply-side consultations and the qualitative demand-side research indicate that levels of trust are low following dollarisation. However, 63% of adults have indicated that they still trust the institution of banking. This rises to 72% for mobile money (FinScope, 2014).

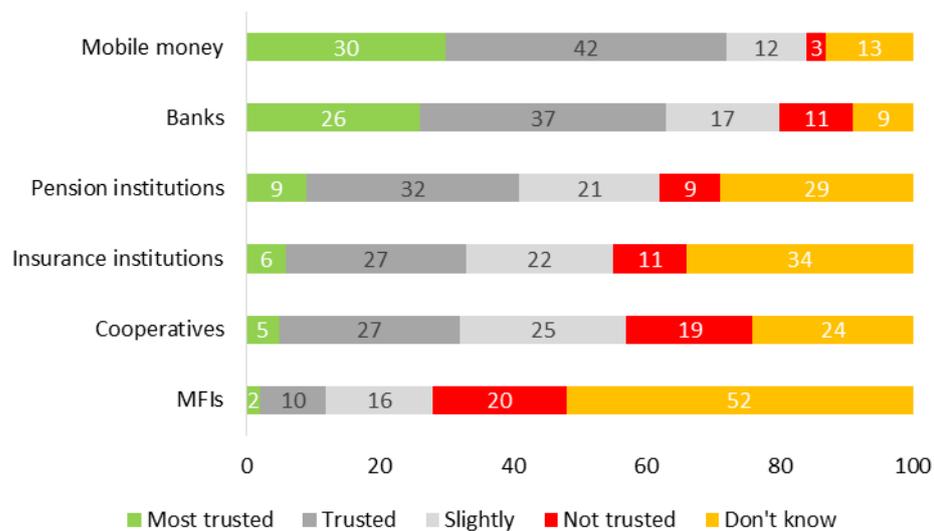


Figure 91: Institutions ranked by level of trust as a percentage of Zimbabwean adults

Source: FinScope, 2014

Hassle factor

More convenient to access mobile money. Banks are currently largely branch-based for some interactions, with limited geographic outreach of ATMs. Links to mobile money agents hold the potential to reduce this barrier.

“To save in EcoCash you don’t need to have a lot of money you can put USD2 or USD5 and the agents are always in a walking distance, I don’t have to waste my time going to town to put my money in the bank and also there are no long queues at EcoCash.”

Informal trader, Female, 31 years old



Appendix H: Payments: Overview of NPS system players

Table 34 below provides an overview of key NPS system components. The purpose of this table is to support an in-depth understanding of the NPS system.

Name of payment system component	Location	Description
Real-Time Gross Settlement system (RTGS): Zimbabwe Electronic Transfer and Settlement System (ZETSS)	RBZ ¹¹⁴	SWIFT-based real-time gross settlement system (RTGS). System: credit push. Connects to: Commercial banks, building societies, discount houses and merchant banks.
ZimSwitch	Private ownership	Retail electronic funds transfer operator that switches payments and clearing instructions between member banks. ZimSwitch enables interoperability between 16 banks.
ZimSwitch Instant Payment Interchange Technology (ZIPIT)	Private ownership	Real-time digital payment platform operating at the interbank level that allows for interoperability between banks and Mobile Network Operators. It is intended to handle real time low value, high volume electronic payments and redemption via participant ATM and POS infrastructure (FinMark Trust, 2012).
ZimSwitch Shared Services (ZSS)	Private ownership	Common processing platform and switch that provides a consolidated interface for bank and non-bank transactions (supply-side consultations, 2015).
Visa and MasterCard switches	Private ownership	Designated NPS operators that switch Visa and MasterCard payments on behalf of acquiring and issuing banks.
Central Securities Depository (CSD)	Private ownership	Facility for retention and electronic transaction in respect of dematerialised securities (RBZ, 2002).
PayServ	Private ownership	Payments network platform providing financial processing services: Electronic Funds Transfer Management Systems, Core Banking, Bureau Services and other back-office process systems for Financial Institutions and other institutions.
Electronic Clearing House (ECH)	Closed (FinMark Trust, 2012)	
The Southern African Development Community Integrated Regional	Regional (currently located in South Africa and operated by the South African Reserve Bank (SARB) on behalf of SADC Member States	SADC's SWIFT-based real-time settlement system. It is a high value regional payment, gross settlement system operating in both the Real-Time Line (RTL) the Continuous Processing Line (CPL) modes. SIRESS is open to participating banks and central banks within SADC and is in the process of developing a

¹¹⁴ Owned by RBZ due to the systematic importance of the RTGS function causing it to fall within their mandate of: "ensuring financial stability through its involvement in financial markets, supervision of banks and payment systems oversight".



Settlement System (SIRESS)	through the Committee of Central Bank Governors (CCBG)	regional Automated Clearing House (ACH) to expand coverage to include low value retail transactions. It is intended to become the primary regional settlement system for low value transactions (Thom et al, 2014).
Regional Payment and Settlement System (REPSS)	Regional (COMESA)	COMESA's SWIFT-based real time settlement system (Thom et al, 2014).
Society for Worldwide Interbank Financial Telecommunication (SWIFT)	Belgium	An international co-operative organisation that provides a secure transactional network and sets standards of interoperability for international financial transactions (Thom et al, 2014).

Table 34: Payment system components

Source: Author's own, based on various sources as listed in the table