Making Access Possible

Zimbabwe

Financial Inclusion Country Report

2016

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The Centre for Financial Regulation & Inclusion

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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.

The cover symbol

Through the MAP programme, we hope to effect real change at country level and see the impact of financial inclusion on broader national growth and development. The cover graphic features the Lotus, a flower synonymous with Malawi. The flower symbolises growth and development while the circle represents inclusive growth. Each flower is an example of the successful growth in a unique environment. By combining the flower with the currency symbol of Malawi we represent the characteristics of the country, linking financial inclusion with successful growth.

ABOUT MAP ZIMBABWE

The Government of Zimbabwe through the Ministry of Finance and Economic Development (MOFED) partnered with FinMark Trust (FMT), the United Nations Capital Development Fund (UNCDF) and Center for Financial Regulation and Inclusion (CENFRI) to develop and deliver the Making Access to Financial Services Possible (MAP) initiative. MAP was launched in Zimbabwe in June 2015. MAP seeks to advance financial inclusion and supports expanding access to an appropriate portfolio of financial services for individuals and micro-and small-businesses that are either underserved or un-served. MAP focuses on interventions by Government, the Private Sector and other stakeholders that seek to enhance Financial Inclusion and Access-to-Financial services (ATF) by the marginalised population. In March 2016, MAP Implementation Roadmap was presented to stakeholders.

The MAP project is formally hosted by MOFED, with the cooperation of RBZ. A MAP Steering Committee was formed to oversee the MAP diagnostic and Roadmap implementation process. The MAP Steering Committee is chaired by the Ministry of Finance and Economic Development.

THIS REPORT WAS PRODUCED BY THE CENTRE FOR FINANCIAL REGULATION AND INCLUSION (CENFRI)

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The Ministry of Finance and Economic Development (MOFED) and Reserve Bank of Zimbabwe. The other members of the MAP Steering Committee including representatives from the Ministry of Finance, the Reserve Bank of Zimbabwe, Insurance and Pensions Commission (IPEC), Zimbabwe National Statistic Agency (ZIMSTAT), Ministry of Industry and Commerce, Ministry of Small and Medium Enterprises and Cooperative Development (MSMECD), Consumer Council of Zimbabwe (CCZ), Securities Exchange Control of Zimbabwe (SECZ), Post and Telecommunications Regulatory Authority of Zimbabwe (POTRAZ), Bankers Association of Zimbabwe (BAZ), and Zimbabwe Association of Microfinance Institutions (ZAMFI). The FinMark Trust country coordinator, Africa Corporate Advisors, supplied indispensable insights and assistance throughout the MAP process: organising countless meetings, conducting research, arranging mystery shopping exercises and providing us with insight into Zimbabwe and its people.

Finally, we would like to thank the various people we met with from government, financial services providers, industry bodies, technology providers, telecommunications operators and donor agencies for their time, the critical insights that guided this research and their efforts to extend financial services to the excluded.

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.

Table of Contents

Key facts

Zimbabwe has a GDP of USD 14.2 billion.

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.

Overview of Financial Access

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% 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

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.

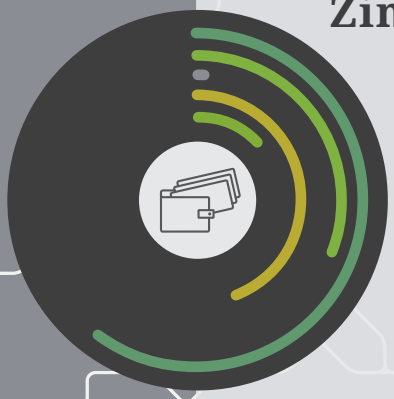
PRIORITY AREA 2:
Utilising and expanding banking infrastructure
Payments are the most important financial services need in Zimbabwe. In order for banks to compete with non-bank FSPs, transitioning to shared infrastructure and interoperability is a key survival strategy.

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
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 produchts
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.

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

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

12% of adults borrow from a formal institution

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. 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 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.

1.2. 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.

1.3. Methodology

The analysis draws on five primary sources :

- ***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 services . 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.

- ***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.

1.4. 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 detailed findings can be found in the longer diagnostic document and is structured as follows:

- ***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.

2 Synthesis of findings

2.1. 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.

2.2. 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:

2.2.1. 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.

2.2.2. 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 pealed 16% 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.

2.2.3 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.

2.2.4. 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 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.

2.2.5. 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.

2.2.6 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.

2.2.7. 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.

2.3. 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 above). 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

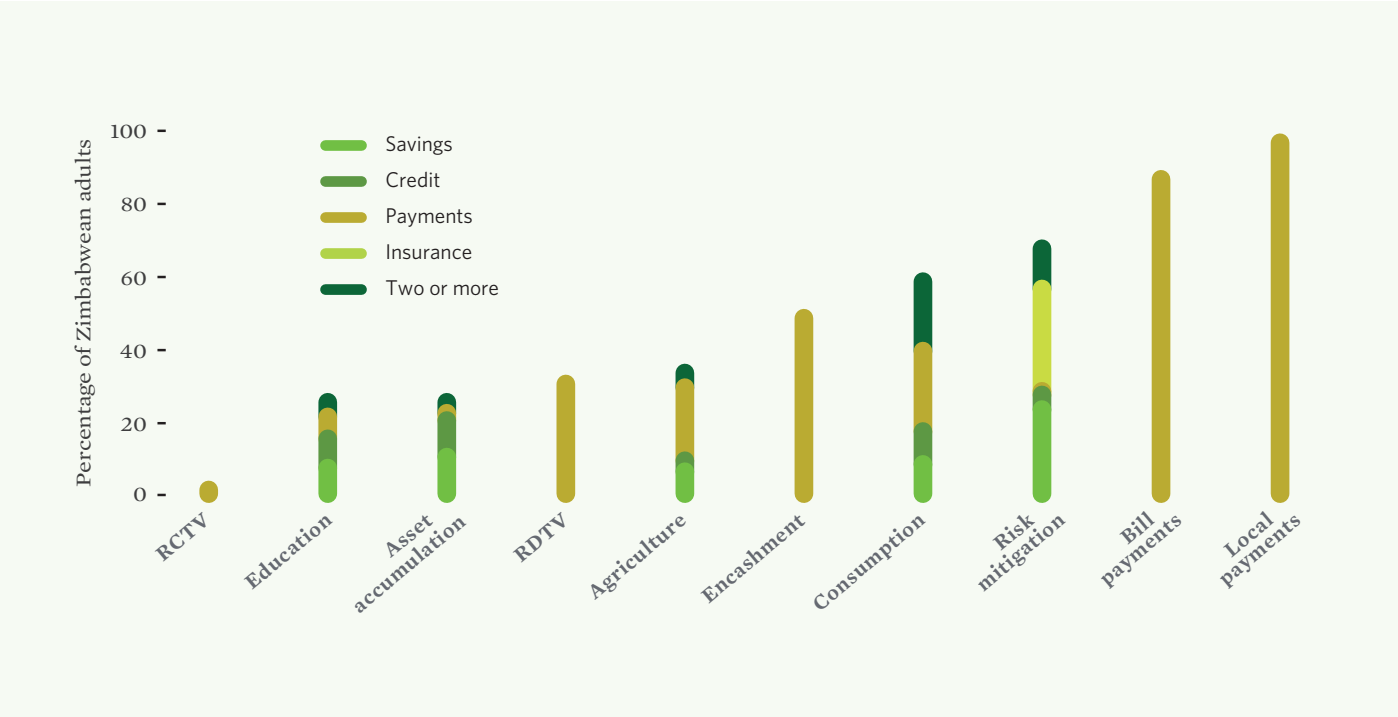


Figure 77: Need cases in Zimbabwe
Source: FinScope (2014)

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.

2.4. Opportunities to increase financial inclusion

2.4.1. 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.

2.4.2. 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.

2.4.3. 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.

2.4.4. 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.

2.4.5. 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.

2.5. 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 week to create low cost bank accounts or impose prices 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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Endnotes

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

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

3 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.

4 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.

5 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.

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

7 Information and data reflect that which was available at the time of research.

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

9 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).

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